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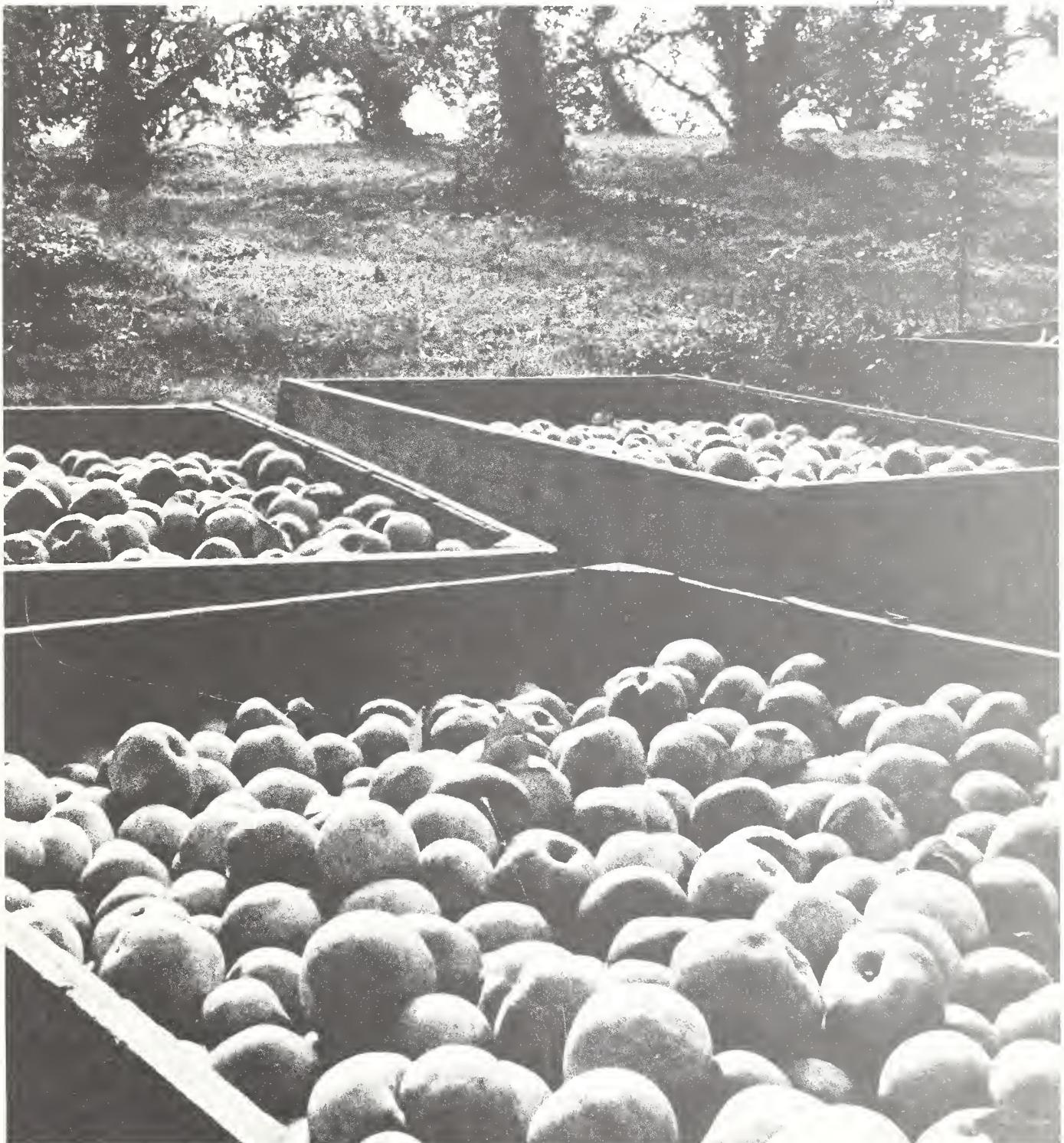
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Agriculture and Rural Economy Division  
Economic Research Service  
U.S. Department of Agriculture

Fall 1989

# ARED Newsletter

Economic and Social Research for Rural America





Putting hay up for storage on a farm in Maryland.

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## ARED Newsletter

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**Cover photo:** A portion of the 1975 apple harvest on the Lee farm in Rappahannock County, Virginia. The photo by Byron Schumaker, USDA, is part of A Portfolio of American Agriculture, available from the U.S. Government Printing Office: (202) 783-3238; #001-000-04236-0; cost: \$11.

**Correction:** In the Spring/Summer issue, the picture credited to Norman Reid on p. 15 was actually on p. 17, and the picture on p. 14 credited to USDA should also have been credited to Norman Reid (copyright).

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## ARED REFLECTIONS

### A New Focus: Rural Conditions and Trends

by Sara Mazie

Over the years we have gotten better and better at describing rural conditions. And increasingly we have been providing information on



Sara Mazie

current and recent overall economic, social, and demographic conditions and trends, often in response to outside inquiries. **Leslie Whitener** and **Tim Parker** (HR) have begun to provide regularly very current information on employment and unemployment trends. **Calvin Beale** (HR) has provided annual county-level metro/nonmetro population estimates informally for some years. **Ralph Monaco** (NEH) writes a regular piece on macroeconomic conditions

for *Agricultural Outlook*. **Alex Majchrowicz** (RBG) and **Linda Ghelfi** (HR) published a report last year on employment and earnings trends. To date this information, while extensive, has been released in a rather ad hoc manner, sometimes in a report, sometimes in a formal memo, other times on an informal basis.

We are now going to launch a new publications series, *Rural Conditions and Trends (RCat)*, that will provide all this information on a comprehensive, systematic, and regular basis. Two types of reports, quarterly and topical, will be included in the series.

The quarterly reports will present the most current information on a broad range of topics as soon as it becomes available. The reports will be designed for people such as USDA and Congressional decision makers interested in getting a general notion of current conditions and trends in rural areas. No topic will be treated in detail. The reports will be written in a non-technical style and be short, not more than ten printed pages. Only simple tables and charts will be included in the text. A few standard tables might be included in appendices. The topics covered will be somewhat different in each quarter, depending on what data become available within the preceding quarter, but the same from year to year. The set of topics covered in the course of a year would include employment, unemployment, population, migration, income, poverty, earnings, industrial structure, and macroeconomics. The 1st quarter report will be an annual report, recapping all the material covered in the previous year, plus whatever new information is available.

The topical reports will provide more detailed information for an audience with a more intensive interest in rural issues. They will provide basically descriptive information on one or

two related topics similar to the ones covered in the quarterly reports. As with the quarterly reports, we will put a premium on getting this time-sensitive information published as quickly as possible. Several existing publications and new ones on selected topics would be included in the series.

ARED specialists in each topic will prepare sections of the quarterly reports and all of the individual reports; they will be listed as authors and the people to contact for additional information. In many cases the series will provide an outlet for information they have routinely prepared in the past, but never published.

Establishing a separate series, with a special cover, will allow our readers to identify easily all ARED reports that provide the most current information on current rural conditions. Reports that include more analysis will continue to be published as staff reports, *Rural Development Research Reports*, or *Agriculture Information Bulletins*.

Because timely publication will be a high priority, a compressed production schedule will be set up. Although the details have not been worked out yet, this will probably mean setting up an expedited review, clearance and production process compared with that usually used in the division.

We plan to have the *RCat* series reports follow the new thematic unit publications format being introduced by the Information Division (see below - "Agency Trying Out New Publication Format"). We have already begun working with ID on one of the topical reports. The types of reports in the series should lend themselves to this format for several reasons. The quarterly reports' intended audience wants to get information on current conditions and trends quickly and succinctly. The format also facilitates both the short treatment of several subjects and the integration of sections by different authors into a single report. All of this will be easier if staff members prepare the reports in the new format from the beginning.

We think the *RCat* series will be a step forward in getting more of our basic work into the hands of our users. My job, with your help, is to make it all happen in FY90.

### Agency Trying Out New Publication Format

The Agency, with assistance from the Information Division, is now experimenting with a new approach to publications called "Strategic Writing". The new format is designed to help us reach a broader audience by dividing publications into individual topics and presenting each topic in a two-page unit or spread. On the left page is the text, headed by an active title and a "thesis sentence" that give the reader a notion of the argument or theme being addressed on those two pages. Tables, charts, word displays, and other visuals supporting the argument are normally on the right. The sequence of two-page units establishes the overall story or argument of the report.

The format's origin lay in the observation that written prose breaks into naturally occurring thematic units, or topics, of about 500 words. While text pages in this style need not be that length, they will always address a single topic.

This new format, now being tried with Agricultural Information Bulletins, some departmental research reports, and even staff work, is significantly different from that used in the past and will take some time to adapt to. Authors, in particular, will need to make some adjustments to report writing. Deciding to use it before starting a first draft should help immensely, because the authors will be able to develop the thematic units when they first start writing.

With time and experience we will know better how and when to use the thematic unit format. In the meantime, we all should consider using the format in future publications. Decisions about when to use it rest with the program divisions. In many cases, this might mean having two publications on the same research, one using the traditional report format for our more technical audience, another the thematic unit approach for the more general audience we would like to reach more often.

An example of the "Strategic Writing" format as used in *Recent Developments at the Farm Credit System* (AIB-572) by Merritt Hughes (F&T) is given below.

## A TWO-PAGE THEMATIC UNIT

**Topic title**

**Thesis sentence**

**Left page for prose**

**Call out**

**Right page for visuals**

**Recent Developments: Decreasing Loan Volume Affects System's Power of Recuperation**

Rapid decreases in the number of FCS loans to farmers increased the strain on the system. As creditworthy customers paid off high-interest FCS loans early to refinance with other lenders, the percentage of system borrowers unable to repay their FCS loans increased.

One of FCS most recent difficulties has been the rapid contraction of borrowing by farmers. By 1987, system loan volume had shrunk to \$52.5 billion, \$30 billion below the 1983 peak and the lowest level since 1976 (fig. 2). While the FCS was by far the largest lender to agriculture in 1983, holding more than one-third of total farm debt, commercial banks now dominate the farm loan market.

As interest rates fell during the mid-1980's, FCS loans became relatively expensive. In the early 1980's, the system issued long-term, noncallable bonds (the source of loanable funds for the system) to more closely match maturities on its loans in an attempt to decrease some of the risk associated with lending. The strategy backfired, however, when interest rates peaked shortly thereafter. As interest rates receded, other institutions that had not followed the same strategy offered lower priced loans.

The cause of FCS loan volume decline is threefold. Beginning in 1985, a high rate of default on FCS loans, loss of many customers to other lenders due to high loan interest rates offered by the FCS at that time, and reduced borrowing by farmers contributed to FCS financial problems. The default rate was high due to financial stress in the farm sector and, some analysts argue, because the FCS based its lending criteria too much on expected increases in farmland values as reflected in market prices, and not enough on expected cash-flow. Also, as FCS loans became relatively expensive and carried little or no prepayment penalty, borrowers had incentives to refinance elsewhere and leave the system. As creditworthy borrowers paid off their loans early and refinanced with other, lower rate lenders, the percentage of system borrowers unable to meet their repayment schedules increased. Finally, farmers as a group reduced their debt levels as returns to agricultural investments fell.

Numerous problem loans and net losses lowered bond investor confidence in the system's ability to pay interest (or principal) on its bonds on a timely basis, and increased yields on outstanding FCS bonds (fig. 3).

**Figure 2**  
**FCS balance sheet asset components**

Source: Federal Farm Credit Bank Funding Corporation, Annual Information Statement, 1987 and 1988.

Loan volume declined in late 1980's due to loss of good customers to other lenders and overall reduced farm borrowing, leading to increased overhead costs and decreased net FCS income.

**Figure 3**  
**Spread between monthly new FCS 6-month bond issue yields and Treasury bond yields**

The spread is the rate of return the investor receives if the bond is held to maturity. Source: Farm Credit Administration.

The large yield spread of FCS bonds over Treasury bonds occurred as FCS financial problems emerged. The spread narrowed in 1986 and 1988 after legislation was passed addressing FCS problems.

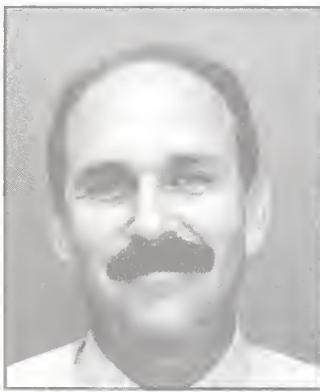
Example is modeled after graphic in *Strategic Writing*, by William J. Hudson (© William J. Hudson, 7313 Manchester, Maumee, OH 43537). The booklet was given to ERS line staff who attended a briefing on the technique in June. Additional copies can be obtained in room 228 of the New York Avenue building or by calling the Information Division at (202) 786-1512.

## F.O.R.A.

[Editor's note: This new section enlarges the size and the scope of the "Featured Research" section that appeared in previous issues. Its origin lies in the desire to expand on a greater number of research projects and, additionally, on work division members are performing that cannot be classified technically as research. The title derives from the acronym for "Focus on Research and Analysis", which, I realized after devising it, happens to be the Latin plural of "forum". The label seems appropriate to me because the section provides a number of outlets for fuller discussion of division activities than those in regular branch narratives.]

### Will Farm Wages Rise With Immigration Reform?

In response to the concern that policymakers have expressed about the effects that the Immigration Reform and Control Act (IRCA) of 1986 might have on U.S. agriculture,



Jim Duffield

Jim Duffield (Farm and Rural Economy Branch) has developed an econometric model to help analyze the farm labor market. In it, he employs a system of simultaneous equations to measure the effect that wages, farm commodity prices and other factors have on farm labor supply and demand.

IRCA attempts to prevent illegal aliens, i.e., those who are not registered with the

Immigration and Naturalization Service, from working in the U.S. by imposing fines and jail on employers who hire them. IRCA established three categories of alien workers. One is illegal aliens who have resided continuously in the U.S. since before January 1, 1982. Those in this category are offered amnesty and, upon approval of an application, can eventually become U.S. citizens. Over 1.7 million persons applied under this provision before the May 4, 1988 deadline.

IRCA's Special Agricultural Worker (SAW) Program is concerned with the large number of illegal aliens who are temporary, non-resident workers on U.S. farms. Under this provision, illegal aliens may be given legal resident status and the right to work if they previously performed "seasonal agricultural services" (SAS) in the production of any of a wide range of perishable crops. Livestock and livestock products are excluded, however. Aliens who did fieldwork in these crops for at least 90 days between April 30, 1985, and May 1, 1986 qualified to apply for resident status. About 1.3 million persons applied before the November 30, 1988 deadline for this category. The SAW program was designed to benefit those farm employers who have become dependent on illegal aliens by replacing them with SAS workers. The program's impact on the labor supply will be difficult to quantify, however, since no reliable count of the

number of illegals that have worked on U.S. farms exists. Furthermore, the Immigration and Naturalization Service suspects many fraudulent SAW applications, and it is too early to determine the number that will eventually be approved.

Since SAWs are not required to remain in agriculture after they become residents, and the number of SAWs who will leave farmwork is impossible to predict, the IRCA requires that a portion of those who quit working in SAS crops be replaced by new aliens called replenishment agricultural workers (RAW) each fiscal year from 1990 until the RAW program ends in 1993. These workers also qualify for citizenship after working at least 90 days per year for 5 years in SAS crops.

Preliminary results obtained from Jim's model indicate that people in the farm labor market are slow to respond to market changes. IRCA will likely put upward pressure on the wage rate in the short-run if the farm labor supply is reduced. If the SAW program increases the farm labor supply, then IRCA would put downward pressure on the wage rate in the short-run. However, in the long-run, when workers and employers have time to make adjustments, IRCA would tend to affect the quantity of labor used more than wage.

The study is expected to be completed in December, 1989. It will be published as a ERS staff report called *Estimating Farm Labor Elasticities to Analyze the Effects of Immigration Reform*.

### A Social Accounting Matrix in the National Aggregate Analysis Section

"Another set of economic accounts?" In this data-inundated "Information Era", National Aggregate Analysis (NAA) Section analysts were initially skeptical, but are now convinced of the usefulness of Social Accounting Matrices (SAM's). In the report, *Data, Linkages, and Models: U.S. National Income and Product Accounts in the Framework of a Social Accounting Matrix* (AGES 89-5), Ken Hanson (National Economy and History Branch) and Sherman Robinson (U. of California-Berkeley, formerly NEH) describe a SAM for the U.S.



Ken Hanson



Sherman Robinson

What are SAM's and how did NAA - ERS, even - get into this area of economic accounting?

In policy analysis, a continuing tension and interplay exists among issues, models, and data. During the last 25 years, distributional and structural issues that require analysis at a sectoral and/or micro level appeared on the policy agenda. For this reason, models have moved from an economywide framework influenced by Keynesian macro theories to a more disaggregated framework for evaluating the impacts from macro or international shocks. Disaggregate analysis, however, must be reconciled with macro analysis.

Input-output analysis has been the best available disaggregate modeling framework. For some purposes, Computable General Equilibrium (CGE) models, which expand upon input-output models by allowing prices to be endogenous and accounting for a more complete circular flow of income within an economy, now challenge that primacy. CGE models, however, require economywide economic databases. Meeting that need may require a modification in existing economywide economic databases. Viewing the economy from a modeler's actor/transaction perspective, a SAM integrates micro survey data with macro data from the national economic accounts into an accounting framework for CGE models that includes all transactions among actors. A SAM is also flexible in data organization and compatible with alternative analytical approaches.

The National Income and Product Accounts (NIPA) provide the macro data for a SAM and the input-output accounts disaggregate production among commodity groups. Besides an account for production, a SAM has accounts for factors of production, enterprises, households, government, combined capital account, and rest of world. Different categories of labor may be distinguished by occupation or some other characteristic important for the policy issue being analyzed. Different household types may also be distinguished by income or some social-demographic characteristic. The rest of world may be divided into country groups.

The process of developing a SAM framework has just begun and NAA looks forward to cooperating with others in ERS to help maintain and expand the SAM data base. The cornerstone of that data base will be the official 1982 input-output accounts published by Bureau of Economic Analysis. National level estimation of factor commitment and income will continue directly in the section under **Ken Hanson**. Work focusing on rural/urban details using the County Business Patterns data and other subnational data will continue at Washington State U. under David Holland and at Penn State U. under Maureen Kilkenny.

#### **Do better-educated workers fare better following job displacement?**

The ongoing - and perhaps accelerating - process of structural economic change caused by increased international competition and capital mobility, new workplace technologies

and structural changes in industry continues to focus attention on the economic costs of job displacement and on public policies to reduce and more equitably distribute those costs. The argument that higher educational attainment among workers facilitates labor market adjustment because workers with good cognitive skills are more easily trained and generally more adaptable is intuitively plausible and has been supported by some case study evidence. Statistical tests of this hypothesis, however, have been hampered by scarcity of data because, until recently, microdata on the postdisplacement experience of a large sample of permanently displaced workers have not been available.

Using a large sample from the 1984 and the 1986 Displaced Workers Surveys, special supplements to the Current Population Survey (CPS), to examine the effect of education on postdisplacement labor market adjustment,

**Paul Swaim** (Human Resources Branch) and Michael Podgursky (U. of Massachusetts-Amherst) find strong statistical evidence that workers with more schooling experience smaller economic losses as a result of displacement. Displaced workers who have completed more years of schooling spend significantly less time finding a new job and are more likely to return to full-

time employment. More educated workers were also reemployed at earnings levels that compare more favorably to those in their prior position and are more likely to replace employer-sponsored health plans lost with the former job. The results of their study are reported in the August issue of the *Monthly Labor Review*.

The reductions in the private costs of displacement associated with education represent net reductions in the social costs of economic change if workers with greater education were better able to find new jobs that more closely matched their productivity in their previous position. Such productivity gains, in turn, would reflect the increased value of investing in general skills during a period of rapid structural change. It is possible, however, that some of the advantages accruing to more-educated workers do not reflect true social gains if educational attainment is due to native intelligence or perseverance, rather than productive skills acquired in school. Unfortunately, the data do not reveal why more-educated workers fare better, just that they do.

One final caveat is in order. While higher educational levels lower the costs of displacement, they by no means eliminate them. Many workers with above-average education still experience long spells of joblessness and large earnings losses upon reemployment. Improved general education is unlikely, therefore, to address fully the concerns motivating targeted adjustment assistance for displaced workers, such as Job Training Partnership Act Title III programs.



*Paul Swaim*

## How Rural Banks Are Changing

The structure of commercial banking is changing rapidly as a result of deregulation and technological advances. But because rural banks typically are small and face less competition, the pace at which rural markets evolve is less certain. Before addressing the ultimate importance of financial change to rural communities, it is useful to develop better information concerning the extent of structural change that has, or will likely, take place in rural areas.

Dan Milkove (Finance and Tax Branch) is developing such basic information using a database on bank structure maintained by the Board of Governors of the Federal Reserve System.



Dan Milkove

Dan and other members of the Finance and Tax Branch have for some time used sources of financial data covering bank organizations (Report of Condition and Report of Income) and bank branches (Summary of Deposits). As a byproduct, these files provide information on numbers and locations of banks and their branches at particular points in time. The database also makes it possible to go beyond year-to-year movements in numbers of banks (branches) and examine the various types of changes that occurred.

For instance, the database indicates that the total number of banks has declined from 14,494 at the end of 1984 to 12,893 on August 4, 1989, primarily due to mergers, but helped along by bank failures. However, it turns out that many mergers are due to reorganizations of multibank holding companies. When a State such as Texas liberalizes its branching legislation, holding companies respond by converting bank affiliates (each a separate bank) to bank branches (offices of a remaining bank). In such cases, rural customers are not likely to observe much difference in how they are treated. Besides merger transactions, the structure database contains information on bank openings and current status (active or closed). And it allows us to select banks satisfying various criteria (name or location change, new holding company number, date insured, etc.).

During the next year, Dan plans to continue tabulating structural change by year, State, and rurality. He will identify banks that underwent a change in ownership. By using branch level structure data he will identify rural counties that were affected by a change in ownership of a bank or bank branch. Dan will use bank financial data, legislation governing branching and interstate banking, and county level socioeconomic data to classify these banks and counties. The next step is to develop a simple model of bank acquisition, and to apply that model to remaining banks, thus making it possible to predict the future structure of rural banking markets.

## New Establishments: Rural vs. Urban; Independent vs. Affiliated

Structural changes in business and industry in the early 1980's are causing many rural communities to reassess policies that encourage the formation of indigenous businesses in advanced, fast-growing industries. Using longitudinal data on approximately 924,000 new independent firms and affiliates that were started between 1978 and 1980 from the Small Business Administration's U.S. Establishment and Enterprise Microdata (USEEM) files, James Miller has found evidence that new independent businesses in growth industries such as advanced producer services (business services) and high-technology manufacturing (computers, pharmaceuticals, etc.) have continued to contribute less to employment in nonmetro than metro areas. These results corroborate previous studies that have shown that new enterprises in growth industries are more likely to locate and grow in metro areas.

Among the findings, industry employment location quotients<sup>1</sup> were consistently lower for the survivor cohort in nonmetro than in metro areas by census division. In terms of ownership, a greater proportion of the new establishments in nonmetro areas were affiliated with outside companies than in metro areas, and new affiliates had more employees in 1986 than new independent firms. New businesses of both types in nonmetro areas also did not grow as much as those in metro areas. Overall, those that survived in nonmetro areas increased their employment only 9.3 percent between 1980 and 1986, less than half the growth rate in metro areas.

But the news is not all bleak. 49 percent of the new firms established in nonmetro areas between 1978 and 1980 survived, some 5 percentage points above the rate in metro areas. With respect to ownership, independent firms appeared to be more locationally stable and grew faster than company affiliates in nonmetro areas. The survival rate for affiliates was 38.7 percent and survivors expanded their employment only 2.5 percent. (Employment in new affiliated high-tech manufacturing firms actually declined 27% between 1980 and 1986!) Among independent firms, the survival rate was 53.5 percent and survivors expanded their employment 19.5 percent. One reason for the lower survival rate of affiliates may have been the 1980-82 recession. Other

<sup>1</sup> Employment location quotients indicate relative changes in the distribution of employment in surviving firms among regions and types of businesses. They equal a region's share of an industry group's 1986 employment in companies started between 1978 and 1980 divided by the region's share of total employment in 1980.

research has suggested that affiliates are more cyclically responsive than independent firms. Another reason may have been that large, absentee corporations were "downsizing" their operations by closing and divesting themselves of potentially profitable nonmetro sites.

On the other hand, new affiliates of large multi-unit companies in rural industries dependent on natural resources and low-wage labor, the kind that have always been attracted to nonmetro locations, continued to show a strong tendency to locate in nonmetro areas. Recently, nonmetro areas have also been attracting affiliates of out-of-state firms in goods-producing industries to a greater extent than metro areas. Many of these were controlled by out-of-state headquarters, which suggests that they were mainly standardized production operations and other routine activities moved to nonmetro areas by parent companies to reduce labor costs.

Jim presented his findings in a paper at the annual meeting of the Southern Regional Science Association held in Chapel Hill, NC, in April. They will also be published in a forthcoming Rural Development Research Report, *Survival and Growth of Independent Firms and Company Affiliates in Rural and Urban America*.

### Farm Income Forecasts: Where Are They From? Where Do They Go?

Diane Bertelsen and Andy Bernat have been the ERS team that forecasts farm income recently. The farm income forecast project's primary function is to construct both short-term forecasts (one or two years ahead) on a monthly basis and long term forecasts (five to ten years ahead) twice a year. Other tasks make use of these two activities but are required less frequently. Chief among these is the calculation of seasonally adjusted income components for the Department of Commerce, the *Economic Indicators of the Farm Sector: National*

*Financial Summary* (ERS), and the *Economic Report of the President*, and *Economic Indicators*, both published by the Council of Economic Advisors. In addition to these scheduled responsibilities, analysis of income trends are provided on demand to ERS analysts, other government agencies, and the public. For example, the project has provided analyses of how policies such as the wheat export enhancement program, trade liberalization, and alternative farm bill proposals are likely to affect farm income.

New short-term forecasts are constructed monthly and distributed within ERS as part of the agency's Monthly Update package. They are also provided to the Bureau of



Diane Bertelsen

Economic Analysis, for use in their GNP forecasts, and the Council of Economic Advisors (CEA). The forecasts are first made public at the Fall Outlook Conference and are updated and published quarterly, as required by law, in both *Agricultural Income and Finance Situation and Outlook* and *Agricultural Outlook*. Unpublished data from ERS and ASCS analysts and published data from other sources, primarily NASS publications, are used in a set of BASIC programs, FORTRAN programs, and Lotus 1-2-3 worksheets. The income forecasts require projections of cash receipts for 32 commodity groups, 11 government programs, CCC loan activity for 9 crops, 20 expense categories, and other farm income related variables.

The long-term forecasts, which are made twice a year, are part of the USDA Baseline project. The winter baseline is an outgrowth of work done in preparation for the President's budget. The summer baseline is based on the mid-year budget review. The forecasts use unpublished information provided by ERS and ASCS analysts. The baseline results are also unpublished. A 150-equation econometric model is used to generate these forecasts.

[Andy is not pictured because he has moved on to a spot in the National Aggregate Analysis Section (National Economy and History Branch) since he penned this article. A new ARED member, John Jenkins, will eventually take over his spot on the forecast project. More about both in the next issue.]

## OFFICE OF THE DIRECTOR

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### Publications

A book chapter, "Policy Options for the Rural Poor in the 1990s: The Past Is Prologue", by Ken Deavers and Robert Hoppe (HR) will be published in *Rural Policies for the 1990s* by Westview Press in early 1990. All royalties will go to the Rural Sociological Society. The chapter points out that the recent welfare reform measure, the Family Support Act (FSA) only reforms Aid to Families with Dependent Children (AFDC). Other reforms could help other groups of the poor. The chapter suggests policy changes relevant to four groups of the rural poor: families eligible for AFDC, the aged and disabled poor, the working poor, and the unemployed poor. It also shows how our current welfare system was shaped by beliefs about the poor that are older than the Nation itself. If proposed changes to the system are to be accepted, these beliefs must be taken into account.

Ken Deavers and David Brown (Cornell U., formerly Office of the Director) contributed an article on the changing context of rural economic policy in the United States for a recently published book, *Research in Rural Sociology and Development: Rural Labor Markets*, edited by William Falk and Thomas Lyson. They identify key differences between rural and urban labor markets and suggest that the problems and opportunities facing rural America in the 1980s differ from those in previous decades.

"Market Areas' Help Describe Rural Economy", published in the July issue of *Farmland*, was based primarily on information provided by **Dick Long**. The article discussed the possibility that rural development policies might be more effective if they were aimed at "local labor market areas" (LMA's) rather than political units of towns and counties.

USDA economists and demographers have drawn up a network of LMA's by clustering commuting patterns obtained in the 1980 Census of Population into distinct areas. LMA's can be considered "economic communities", because they are much more economically self-contained and offer more than a single town, city, or county. In fact, because these groupings can add up to more than the sum of their parts, they may be the best opportunity rural residents have to obtain quality medical care, access a wider range of goods and services, effectively utilize capital, and attract and maintain industrial employment and specialized business enterprises. And if rural areas can accomplish these things, they are more likely to retain their population.

"Treating the Ills Of Rural Areas", in the May issue of *Farmland*, was based largely on information provided by **Ken Deavers** and **Dick Long**. The article discusses how similar developments have led to similar conditions in U.S. and European Community (EC) rural areas and how leaders in each arena are addressing those conditions. One common thread is that "the 'post-agricultural' diversity of rural economies means that no sector-specific policies can cope with the breadth of adjustments facing" U.S. and European rural areas. Dealing with these adjustments "requires a broad-based, comprehensive approach"; yet, another common thread is the absence of such an approach in both places.

The EC too has begun to view its rural areas as more than farming areas and study the status and prospects of its rural residents. A special focus of its study is "pluriactivity" (multiple job-holding among farm household members), a topic **Leslie Whitener** (HR) is investigating. (See "Factors Affecting Multiple Job-Holding Among Nonmetro Families" on page 34.) One large difference between the U.S. and the EC is the extent of government involvement in the economy. The U.S. government has addressed serious disparities in income and standard of living with programs such as TVA and rural electrification, but there is currently little political support for significant spending on rural development.

The division provided John Carey, a reporter for *BusinessWeek*, with data on changes in the farm sector and rural areas over the past 50 years for a story he is writing on changes in the country during that period. Among the items given to him were copies of the U.S. county-level maps showing the economic and social bases of nonmetro areas updated to 1986, which Carey indicated would likely be published with the story.

## Rural Development Perspectives

One of the pleasures of working on *RDP* is getting to know people in different branches. But because editorial

board membership rotates and people move or change jobs at ERS, each year we regretfully lose some members while welcoming others.

This past year was no different than previous ones. **Len Bloomquist**, Book Review Editor, has joined the faculty of the Department of Anthropology, Sociology, and Social Work at Kansas State U., Manhattan, (little apple), KS. **Greg Gajewski**, *RDP Indicators* Editor for two years, took a step up to become Editor of *Agricultural Outlook*. The Board welcomed **Molly Killian** (sociologist, HR) as new Board member and Indicators Editor. **Mark Denbaly**, (economist, NEH) now serves as Editor of the Book Review column. **Steve Koenig** (economist, F&T) and **Paul Swaim** (economist, HR), joined the Board and **Don Lerman** (F&T) and **Linda Swanson** (HR) rotated off. While we miss Len, Greg, Don, and Linda, we enjoy the fresh ideas and perspectives of the new members.

We invite researchers to submit articles for publication in *RDP*. Research articles generally tell what's happening in rural America in finance, education, labor markets, and population, to name a few topics. The editorial board of researchers from the Agriculture and Rural Economy Division of ERS reviews submitted articles to determine whether they satisfy *RDP*'s standards of technical competency and general suitability for a rural development journal. In most cases, the author of an article accepted for publication will be asked to revise the piece to cast it in a writing style appropriate for *RDP*'s audience, which includes rural policymakers, regional planners, and local government officials. Editors and indepth reviewers will make suggestions for the reworking. We reserve the right to reject submitted articles if we judge them not to meet *RDP* standards or be in accord with *RDP*'s mission. We will gladly send copies of our "Guidelines for Contributors" upon request.

Also, are there any frustrated photographers with a rural interest that would like an appreciative audience out there? If so, please think of *RDP*. We are always looking for good, clear black and white photos, such as a picture of a rural manufacturing plant or a school, that illustrate rural development issues covered in the journal. Contact us if you have a photo file of such pictures, or know of someone who does, or would like to try your hand at such photography. We run credit lines for all photos used and, in some cases, are able to pay small fees (except to USDA employees).

The *RDP* Subject Index, which lists all *RDP* articles by subject category from Volume 1 through Volume 5, is now available. The index is useful when searching for a particular article to reproduce for yourself or others, or to see what has been published about a particular subject. To request a copy, call **Lisa Nanches** or **Louise Stutzman** on (202) 786-1547, or drop by room 434 to pick up a copy.

Multiyear subscriptions to *RDP*, which is published three times annually, are available directly from ERS, for \$9 a year, 2 years for \$17, and 3 years for \$24. Call 1-800-999-6779 to order.

The recently released June 1989 issue of *RDP* contains:

"Rural America and the Revolution in Health Care", by Jeffrey Bauer and Eileen Weis. Health care in rural areas is evolving along lines different from what we are used to. Fewer hospital beds are needed now and not all rural areas need a hospital. However, they do need local health care professionals and emergency care services. By focusing on how best to provide it, rural health care could improve.

"Contributions of High-Tech Manufacturing to Rural Economies", by Stephen Smith and David Barkley. Rural areas have only a small fraction of the Nation's high-tech jobs, but many high-tech firms seem to favor a rural setting, especially if it's not too far from a good-size city. High-tech firms usually offer better pay and more jobs than the typical rural firm.

"Entrepreneurs Find Niche in Rural America", by Mark Popovich and Terry Buss. Rural entrepreneurs in North Dakota have created about 4,600 new businesses and 22,000 new jobs in the State since 1980. Those jobs, about a quarter of all jobs in the State's rural areas, helped stimulate an otherwise sluggish statewide economy.

"Extent of Malnourishment Among the Rural Poor", by Jeffrey Shotland. The rural poor are even more deficient in many nutrients, especially iron and vitamins A and C, than the urban poor. One cause of this paradox may be a lack of access to fresh fruits and vegetables, besides the lack of money.

"What Makes Rural Communities Tick?", by Sonya Salamon. How can two rural communities just down the road from one another and with about the same natural resources differ so much in their approaches to community life? At least part of the answer may lie in the heritage of the residents. Some cultures value community well-being highly; others value individualism.

"Farmers Home Administration's Changing Role in Rural Development", by Stephen Koenig. (For discussion, see title on page 19.)

"Community Ties to the Farm", by David Henderson, Luther Tweeten, and Dean Schriener. (For discussion, see title on page 23.)

"Rural Indicators: Nonmetro Youths Lagging in Education", by Linda Swanson and David McGranahan. (For discussion, see title on page 29.)

*Book Reviews and Short Subjects*, including: "Expanding Role of Community Colleges"; "SBA Loans to Rural Businesses Approach \$1 Billion"; "Foreigners Own Less Than 1 Percent of U.S. Farmland"; "The Greatest Small Business County in America"; and "Rural Low-Income Housing Projects Awarded".

## **FARM SECTOR FINANCIAL ANALYSIS BRANCH**

### **View from the Branch**

by James Johnson

In the past three months FSFA staff have focused on preparing a summary analysis of the financial characteristics of farm businesses, January 1, 1989, completing first estimates of the farm sector net income and balance sheet statements, determining the costs of producing major crops such as wheat and corn, finishing the 1989 FCRS survey design and visiting farmers and ranchers in various States to test the workability of proposed questions, and preparing for the AAEA meetings held in Baton Rouge, LA.

Data from the 1988 Farm Costs and Returns Survey (FCRS) became available for use the first of June. While a large number of longer-term research projects utilize data from the FCRS, the first uses of the data are in the Agency's estimates and situation analyses programs. Results from the 1988 survey indicated that, despite the 1988 drought, farm financial conditions remained similar to those of 1987. On average, farm profits were higher, but fewer farms were profitable (75 percent as opposed to 78 percent). More farms had no outstanding liabilities, and the downward trend in the percentage of farms with high debt/asset ratios continued. The proportion of farms with debt/asset ratios above 0.40 fell to 14 percent at the end of 1988, compared to nearly 22 percent of farms two years ago. The improvement observed in financial performance of farm businesses the past three years was largely sustained in 1988 with the share of farms categorized as either favorable (67 percent of farms) or vulnerable (5 percent) remaining similar to a year ago. As was the case in 1987, the Corn Belt and Lake States had nearly two-fifths of all operators in a vulnerable situation. Also, likely due to the drought, the share of Corn Belt and Northern Plains farms categorized as vulnerable rose from 5 percent to 7 percent. Farmers in a vulnerable position owed about 20 percent of total farm operator debt, down from 32 percent at the beginning of 1987.

These summary financial performance indications are contained in *Financial Characteristics of U.S. Farms, January 1, 1989: A Summary* (AIB-569), by Mitch Morehart, Dave Bunker, and myself, which was published in July. A larger, more detailed report is now being prepared for release in September/October. In addition to these U.S.-level reports, reports are also being completed for 27 states/regions. These reports will be released by the National Agricultural Statistics Service (NASS) State Statisticians and will be published as a collection later this Fall.

The first estimate of 1988 net farm income, based on survey data, was completed for delivery to the Bureau of Economic Analysis in June. The BEA incorporates FSFA estimates of farm sector income into its economy-wide estimates of personal income and gross national product. The first estimate of 1988 income indicated that total gross

income in the sector totaled \$177.6 billion, an increase of 4 percent from 1987. Total expenses were estimated to have been \$132.0 billion, an increase of 6 percent from 1987. Net farm income was estimated at \$45.7 billion, a decrease of 3 percent from 1987. The \$45.7 billion estimate for net farm income is about 10 percent higher than had been forecast for the 1988 calendar year. The difference resulted from gross income being about 2 percent higher than forecast and total production expenses being about 1 percent less. The impact that small changes in either gross income or total expense can have on the bottomline estimate of net earnings and, thus, our perspective about the sector's financial performance is one reason that forecasts are updated and made available on an ongoing basis through the *Agricultural Income and Finance Situation and Outlook Report*.

The first estimate of the Farm Sector Balance Sheet has also been completed. Liabilities were estimated to total \$138.4 billion, almost identical to the forecast while farm assets were estimated to total \$748.5 billion, about \$2.5 billion less than forecast. The income and balance sheet statements indicate that the leverage position and debt service capability of the sector have returned to levels last observed in the late 1970's and early 1980's.

Design work on to the 1989 FCRS continues to gain momentum. In July and August, ERS and NASS State and headquarters staff spent several staff weeks field testing survey forms to be used this year. Special attention has been focused on questions related to fruit and vegetable production practices, farm investment decisions, contract production and marketing, and production and marketing decisions made by producers of wheat. In addition to traditional production practices data, we are planning to collect data related to Government commodity program participation, marketing, crop rotation, normal yields, and livestock grazing and haying for the 1989 wheat crop. These data should expand significantly our understanding of wheat costs of production and factors that can influence the level of costs for an individual farm. Ultimately, these data will add to our knowledge about the presence or lack of size economies in wheat production.

While attending the AAEA meetings in Baton Rouge, LA, Mary Ahearn, Greg Hanson, and I also attended the preconference workshop on, "New Directions in Data, Information Systems, and Their Uses." A paper prepared by Leroy Hushak and others, "Priorities for Data on Agriculture and Rural Areas: A Survey of Agricultural and Rural Social Scientists," gave results of a survey mailed to more than 6,000 association members last winter. The paper highlighted key issues respondents identified. FSFA has work underway that will address at least three of the most important issues raised: data on cost of production by size of farm; improved data on off-farm income (a more complete understanding of farm operator household financial well-being); and the estimation and publication of standard errors. Several of the AAEA paper sessions also focused on information systems and performance. FSFA has a project underway in this area as well (see the Spring/Summer Issue). Our early work has identified characteristics of farm

record-keepers and the importance placed on the use of records and other information in making management decisions. In the upcoming year, we will attempt to measure how specific records and financial statements are used in the farm or ranch business and relate this information to the structural characteristics of the farm and its degree of financial performance.

Issues that will command considerable attention from FSFA staff in the near term include completing a paper which assesses the distribution of production by level of cost for major crops, analyzing the financial well-being of farm operator households, initiating a project focused on a clearer understanding of the sources and uses of funds of farm businesses, completing a report which analyzes the distribution of Government payments, preparing a report which illustrates the extent of contract production and marketing in the farm sector, and working with the Census of Agriculture to review responses to the 1988 Agricultural Economics and Land Ownership Survey (AELOS). Staff from FSFA will work with Census Bureau staff to review AELOS estimates prior to their publication by the Census. This joint work with Census should enhance our farm income and balance sheet estimation programs.

I close by welcoming Bob Pelly and Bill McBride to the FSFA team. Bob joins us from Ohio State and Bill from Tennessee where they recently completed their graduate training. Bob is working in our cost/size distribution and whole farm financial analysis projects and Bill is working in our farm simulation and cost of production projects. (See PERSONNEL section for more.) Both are located in room 937. Feel free to stop by and welcome them to ARED and ERS.

#### Publications

*Financial Characteristics of U.S. Farms, January 1, 1989: A Summary* (AIB-569), by Mitch Morehart, James Johnson, and David Bunker, was described in *View from the Branch*. It is another publication in the "Strategic Writing" format.

The August issue of the *Agricultural Income and Finance Situation and Outlook Report* relates that, according to the 1988 FCRS results, little overall change occurred in the financial characteristics of U.S. farms between 1987 and 1988. On average, farm profits were higher, but fewer farms were profitable. Survey responses this year indicate that firms contracting for both crop and livestock production are major players in U.S. agriculture. Contractors receive about 10 percent of gross farm income and pay about 5 percent of total expenses.

The Farm Income Estimation Section has just released its 1988 income estimates showing that net cash income rose 3.8 percent while net farm income fell 3.1 percent. California continues to lead the States with the highest total farm income, followed by Texas and Florida. California also leads on a per-operation basis. The Economic Indicators Research and Forecasts Section features an analysis of forecasting errors. Since forecasting is the backbone of ERS'



Corn and soybeans ready for harvesting in Carroll County, Maryland.

Situation and Outlook program, this article should provide an interesting insight into the process.

For a copy, call Bob McElroy on (202) 786-1800.

## Farm Income Estimation Section

### Research & Analysis

The estimates of farm income for the U.S and all states for 1988, with revisions for 1985-87, were completed the first week in August and delivered to the Bureau of Economic Analysis. This fulfills the Branch's obligations to BEA for this estimation cycle. Preliminary estimates were delivered to BEA on several occasions in May, June, and July in accordance with an inter-Agency understanding which has existed for many years.

BEA uses farm income in its estimates for the National Income and Products Accounts (NIPA), Gross National Product (GNP), and various other income indicators down to the county level, some of which are used to allocate Federal revenue-sharing funds by geographic area. The scheduling of the farm income estimation cycle is set by BEA in accordance with their schedule of statistical releases.

Soon after completion, the income estimates were also sent to each of NASS' State offices. This is also in accordance with a long standing cooperative arrangement, whereby NASS' State staffs assist the Section in developing estimates for commodities for which no surveys are

conducted and no production and price data are published.

In return, the State offices have access to the income account information for their state long before it appears in ERS publications. They use the information in state publications and in servicing information requests from individuals and groups whose support are critical to farmers' responses to NASS surveys, which in turn are the foundation for the data base necessary to estimate farm income.

Within ERS, these income estimates and component accounts are published in various levels of detail, appearing first in the September issue of *Agricultural Income and Finance Situation and Outlook Report*, then in three issues of *Economic Indicators* published later in the year, as well as monthly in *Agricultural Outlook*.

### Publications

*Economic Indicators of the Farm Sector: National Financial Summary* was published in September. *Economic Indicators of the Farm Sector: State Financial Summary* will be released in late October.

"Special Topics in Farm Income Estimation", by Roger Strickland and Robert Williams, was published in the May, 1989 issue of *Agricultural Income and Finance Situation and Outlook Report*. USDA farm income estimates are primary indicators of the farm sector's economic situation. The estimation procedures for most farm income components are straightforward. This article explains the estimation procedures for three components that are not so straight-

forward: minor commodities, the value of food consumed on the farm where produced, and the net imputed rental value of housing.

The September issue of *Farmline* carried a listing of the top ten States in 1988 crop and animal cash receipts and graphs of the U.S. showing each State's figures.

#### *Papers Presented & Meetings Attended*

**Jerry Warmann** attended the AAEA meetings in Baton Rouge, LA.

#### **Economic Indicators Research and Forecasts Section**

##### *Research & Analysis*

**Gregory Hanson** recently worked with agricultural economists at Auburn U. in Alabama, on tax impacts on income and costs. The analysis is highlighting regional differences in the tax burden of farmers, including income, sales, and property taxes.

Greg and other members of the section are analyzing the distribution of Government payments in agriculture during the next few months. Analysis of Government payments can be difficult to sort through because of the welfare versus supply-control functions of payments. The initial focus of the project has been on payments to financially stressed and farm-dependent households. In the Northern Plains region, limited off-farm employment opportunities have resulted in proportionately more payments going to farm-dependent households than is typical in most other regions.

B.F. Stanton (Cornell U.) recently visited Washington to work with **Diane Bertelsen** on an analysis of specialized dairy farms using 1987 FCRS data. They plan to publish a paper on "Operating Results of Dairy Farms Classified by Size." Their initial results indicate that no significant regional differences exist in operating margins within a given size class, and that variations in operating margin are greater within individual size classes than across regions. Average operating margins are generally highest within a size class when feed purchases as a percent of milk sales are lowest. This relationship holds true for herd sizes from 18-300 cows. Operating margin plus interest as a percent of farm assets held relatively steady between 8-11 percent across herd sizes of 36 to 600 cows.

**Hossein Parandvash, James Ryan and Gregory Hanson** are in the final stages of preparing a report analyzing farm loan losses during the 1985-88 period of financial stress. The report's purpose is to determine whether indicators of financial stress correlate with actual loan payment records. To gauge the correlation, they first estimate farmers' default problems based on their income and solvency positions, and then compare the estimates with lender data on loan losses. If a link is found, this procedure would facilitate forecasting the severity of financial stress, which reflects an inability to

adjust to adverse economic conditions as they occur.

**Jerry Whittaker** has completed the initial stages of an analysis of the 1988 drought. Consistent with other studies and forecasts, he has found that the combination of higher commodity prices and Federal drought relief tended to compensate for the losses in corn and wheat yields last year.

**Andy Bernat** and **Hossein Parandvash** are analyzing the distribution of both farm and nonfarm income among farm households. Initially, they have found that the concentration of household income for all commercial-farm operators was unchanged from 1984 to 1988, but was slightly higher for farm-dependent commercial farm operator households.

##### *Publications*

The May, 1989 issue of *Agricultural Income and Finance Situation and Outlook Report* contained:

"A Financial Ratio Approach to Identifying Imbalances in Farmland Values", by **Robert Dubman** and **Greg Hanson**, which offers an approach to tracking farmland values based on an observed statistical relationship of two conventional financial ratios with clear theoretical underpinnings. Their model appears to provide a useful indicator of future farmland values, providing a warning of land price imbalances, such as occurred after 1975, and improving conditions, such as after 1985. Farmland price changes are an issue because real estate comprises around 75% of farm business assets. The problems caused by movements in land values could be avoided if a reliable measure of farm real estate were available.

"Many Specialized Crop Farms Can Now Cashflow Land Purchases" by **Hossein Parandvash**. If most producers can successfully cover production costs and capital replacement and service the interest expense on a land purchase, real estate prices are likely to be stable and to increase. In this study, Hossein addresses the research question whether producers can satisfy the cost requirements of all land operated when all land is valued at current market values and current interest rates are paid. In 1984, only 10 to 20 percent of specialized wheat and corn/soybean farmers could cashflow a land purchase, while between 52 and 61 percent of such farms could in 1989.

In the July issue of *Agricultural Outlook*:

"Record Receipts and Expenses Forecast for 1989", by **Andy Bernat**, reported that net farm income was projected to be 10-15 percent higher than last year, as crop production rebounds and meat production sets a new high. Net cash income was projected to fall 5-15 percent. Last year's drought helped push this figure to a record \$58 billion as stocks were sold at high prices. Stock rebuilding and a decline in direct Government payments this year will lower net cash income.

"A Look at Farm Income Fundamentals", by **Greg Hanson**, observed that U.S. agriculture has entered its third

year of economic recovery but poses a question as to how solid the recovery will be. U.S. agriculture began the 1980's with a bloated cost structure that was a precondition for the ensuing financial crisis. Will farmers avoid a repeat in the early and mid-1990's? The article discusses a number of factors that will determine whether the recovery will continue.

#### *Papers Presented & Meetings Attended*

**Hossein Parandvash** chaired an international development session at the Western Agricultural Economics Association annual meeting in Coeur d'Alene, ID, in July.

### **Farm Financial Analysis Section**

#### *Publications*

**Major Statistical Series of the U.S. Department of Agriculture, Volume 11: The Balance Sheet** (Agriculture Handbook No. 671), by Kenneth Erickson, Duane Highlander, James Ryan, Linda Farmer (FIES), and Curtis Bednarz (formerly with ERS). Understanding the financial position of the farm sector is essential in developing farm policy alternatives. The farm sector balance sheet and the income and cash-flow statements reveal much about the current wealth and financial positions of farm operators. ERS publishes the balance sheet of the farm sector in *Economic Indicators of the Farm Sector: National Financial Summary* each fall (which also includes the farm income accounts). This publication presents balance sheet data at the national level by value of sales class and provides estimates of capital gains or losses on physical assets and returns to assets and to equity. The annual *Economic Indicators of the Farm Sector: State Financial Summary* contains data for the State balance sheet and farm income accounts.

This handbook volume describes how ERS constructs the balance sheet. ERS published the last handbook volume covering the balance sheet statistics in 1971. Since then, the way in which balance sheet statistics are calculated has changed. In 1980, the *Economic Indicators* series added a major new account designed to separate the farm business unit from the farm family household unit. Since 1971, sources for the data used to derive estimates of various balance sheet components have also changed.

### **Farm Costs and Returns Section**

#### *Publications*

**State-Level Costs of Production, 1987**, by Robert McElroy, Mir Ali, and Robert Dismukes, Staff Report AGES 89-13; and **Costs of Production for Major U.S. Crops, 1975-87**, by Robert McElroy, Mir Ali, Robert Dismukes, and Annette Clauson, Staff Report AGES 89-22. Additionally, **Costs of Production, 1975-87** has been released as ERS Electronic

Product #89025 (three 5.25" disks, cost: \$45). Robert McElroy, at (202) 786-1800, is the contact person.

ERS has been estimating the costs of production (COP) for major U.S. crops since 1974 using COP data obtained through producer surveys. State COP budgets are created by crop and aggregated using a weighted average to the regional and national level. These regional and national budgets are published annually in the *Economic Indicators of the Farm Sector: Costs of Production*. The state-level report supplements the annual economic indicators publication.

The primary data source for developing COP budgets is the annual Farm Costs and Returns Survey (FCRS). Over half of the approximately 26,000 expected survey contacts are selected to complete a detailed whole-farm expenditure and receipt questionnaire. The remaining contacts are asked for less detailed whole-farm data and more detailed information on inputs used, application rates, and other production practice data for one of several specific commodities. Because of a limited sample and high enumeration costs, USDA does not survey for every commodity every year, but rather on a four-year rotation. Between survey years, costs are updated using new yields, prices, and price indexes provided by NASS and a computerized budget program.

The historical publication is a compilation of COP budgets for 13 major field crops at the national and regional level over the history of the COP project. Since the initial COP report, the number of enterprises has been expanded and the methodology improved. The first separate COP survey was conducted in 1978 and was repeated in 1982 and 1983. In 1984, the COP survey was combined with the Farm Production Expenses Survey to produce the first FCRS, resulting in a much larger sample size and more complete coverage. The report also lists the years in which data for particular commodities was collected.

Data from the FCRS has been the basis of two articles:

"Lower Input Use Can Boost Returns" in the *Resources* section of the June issue of *Agricultural Outlook* reported that farming practices that reduce the use of agricultural chemicals, often referred to as low input sustainable agricultural (LISA) or alternative agriculture, may boost profits for some crop mixes in the Corn Belt by lowering farmers' per-unit production costs. Considerably greater use of fertilizers and pesticides have contributed to higher yields. However, besides environmental concerns raised by this increased use, some input-intensive farms have been affected by costs rising faster than returns. Survey data also seemed to indicate that some high-expenditure operations had consistently lower rates of return on assets.

"Government Payments Account for 9.2% Of Farm Income", in the May issue of *Farmline*, discussed the distribution of Government payments by sales class, production specialty, financial status, geographic region, and farm size based on data from the FCRS. The article quoted analyses of the survey results by Dave Bunker and Andy Bernat (now in NEH).

## Papers Presented & Meetings Attended

At the American Agricultural Economics Association (AAEA) meetings in Baton Rouge, LA, July 31-August 2:

Mike Salassi presented a selected paper, "Impacts of Recent and Proposed Environmental Regulations on Net Cash Farm Income of Typical Corn-Soybean and Cotton-Soybean Farms," coauthored with Terry Dinan (Office of Policy Analysis, U.S. Environmental Protection Agency (EPA)). EPA, with assistance from ERS, undertook a study to examine the impact of recent and proposed future EPA actions that have a direct impact on agriculture on the financial condition of farms in the United States. (See *The Agriculture Sector Study: Impacts of Environmental Regulations on Agriculture*, by Dinan, et al.) The study does not try to determine the aggregate total cost of EPA actions on agriculture. Rather it assesses the impact of such actions on the profitability and survivability of individual U.S. farms. The results presented in this paper are a portion of those presented in the full EPA study.

This study illustrates the advantage of examining the impacts of environmental regulations at the farm level in addition to the aggregate analyses at the national level. While national analyses provide useful information concerning the total losses incurred by different types of farms (e.g., corn farms as a whole), the impact of environmental regulations on the financial conditions of individual farms depends on the distribution of those losses among farmers and on the initial financial condition of the affected farms.

Mike also chaired a selected papers session on topics in farm management and agribusiness.

Mary Ahearn participated in the planning of a conference on "New Directions in Data, Information Systems, and Their Uses" held July 28-29 in conjunction with the AAEA meetings. Mary is the current chair of the AAEA's Economic Statistics Committee, which had major responsibility for the conference. The gathering's primary purpose was to work toward a consensus on establishing data priorities for agricultural social scientists. Improved data on environmental issues and the establishment of standard rural statistical areas were two key issues discussed at the conference. The committee's mission this year will be to further the efforts to prioritize data needs for agriculture and rural areas.

The AAEA held "Poster Sessions" at this year's meetings, an innovation intended to provide alternatives for presenting information about research methodology or results in lieu of a paper session. The posters presented were selected using the same peer review procedures as the selected papers. They were on display for two days and all the presenters were at their posters during a special period.

Three section members participated. Mary Ahearn and Dargan Glaze's poster, "Recent Developments in Estimating U.S. Costs of Production", explained the use of cost of

production (COP) estimates, compared the current way of producing those estimates (FEDS) with the new Farm-Level Budget Generator (FLBG) model, and showed the uses of the new model. (A fuller discussion of the FLBG will be presented in the Winter, 1990, F.O.R.A. section.)

Mike Salassi's poster, "Farm Level Policy Evaluation Models in the U.S. and Canada - Cooperative Modelling Development," coauthored with Shankar Naraganan and Allan Andison (Agriculture Canada), related that increased government intervention through ad hoc programs and policies in North American agriculture in the 1980's have considerably heightened the need to complement aggregate analysis by evaluating and monitoring the impacts of current and proposed policies and programs at the farm level. Differences in farm types and diversity of farms at the grassroots level were reflected in significant differences in policy impacts at the individual farm level. REPFARM and REPCAN are farm level simulation models used by the U.S. and Canadian Departments of Agriculture to meet farm-level policy analysis needs. They are derived from the original version of FLIPSIM (a farm-level simulation model) developed by the Texas Agricultural Experiment Station and ERS, USDA. This poster presents the origin, structure, data needs, output information, and limitations of these models, along with some actual farm policy evaluation applications.

Ken Mathews presented a seminar on "Entrepreneurial Capacity and Farm Size" at Montana State U. in August. The model uses farm and farm operator characteristics to explain farm size, then uses farm size along with other farm and farm operator characteristics to explain entrepreneurial capacity. The two-equation recursive approach is used to alleviate expected simultaneity bias from the size variable in the entrepreneurial-capacity equation. Preliminary results suggest economies of size (consistent with much of the literature), possible diseconomies for very large farms, and a negative impact of experience (proxied by operator's age) on entrepreneurial capacity. The potential for cooperative research on farm size with Dr. V.H. Smith is being explored.

Several members of the section participated in the semi-annual meeting of the National Costs of Production Standards Review Board, July 20-21. Established procedures exist under which the USDA prepares the estimates of the costs and returns associated with the major agricultural commodities. Mary Ahearn provided a summary report to the Board on the analysis comparing estimates of fertilizer costs of cotton, corn, and rice under two different estimation approaches. Mir Ali, Robert Dismukes, Ken Mathews, and Mike Salassi participated in the analysis.

The traditional approach is to collect fertilizer quantities from the farm operator and apply NASS prices to estimate the costs. A major problem with this approach is that NASS prices are for a limited number of common fertilizer blends, which are likely less expensive per unit than are the custom blends. The alternative approach is to ask the operator what was the total fertilizer bill for a particular crop. This too has several problems. For example, many times the operator cannot partition the fertilizer costs among the various

commodities produced nor separate the pesticide bill and the cost of custom application from the cost of the fertilizer material, and the fertilizer bill is likely on a tax-year basis, rather than a crop-year. Some of the problems in directly asking the operator to report fertilizer expenses were overcome with the rice cost-of-production data by the way the survey questions were worded. In general, the direct costing approach to estimating fertilizer costs tends to be greater than the traditional approach. Research in survey methods is continuing.

The same cost-of-production staff participated with other researchers in the agency to analyze different methods for estimating general farm overhead. General farm overhead expenses include those expenses which are not directly associated with a single agricultural commodity, e.g., farm utilities. Those expenses are generally allocated to individual commodities based on their relationship of the gross value of production of those commodities to total farm value of production. Researchers across ERS are interested in collaborating on methodological issues to ensure consistency across commodities.

#### *Briefings & Miscellaneous*

Dave Harrington (OD), Jim Johnson, Mary Ahearn, Robert Dismukes, and Mike Salassi met with Steve Ballas and Bob Bor, representatives from the U.S. Rice Producers Legislative group to discuss the USDA methodology for estimating the cost of producing rice and ERS' current estimates of rice production costs and their relationship to current farm bill debate. The group also discussed the statistical reliability of the estimates and the concepts underlying several of the budget line items, such as the net land rent account. Mike Salassi also briefed a legislative assistant to Senator Thad Cochran of Mississippi on rice production costs.

Mike Salassi will be travelling to Biloxi, MS, February 27-28, 1990, to attend the Rice Technical Working Group meeting. Mike is co-chair of the Economics Panel and will be organizing paper sessions for that meeting.

## **FINANCE AND TAX BRANCH**

### **View from the Branch**

by Pat Sullivan

This is a good time to provide you with an overview of the branch's activities. We've completed our FY-90 plans, so I can expound upon all of the great things we'll be doing over the coming year. And since we haven't yet evaluated our FY-89 accomplishments, I needn't feel constrained by our less-than-perfect success rate at meeting previous promises. But my optimism about the coming year is not entirely a reflection of imperfect information. For the first time in its 5-year history, the Finance and Tax Branch is fully staffed.

In the last few months, we've hired three highly qualified researchers and we expect to add a fourth shortly. In addition, Cliff Rossi has moved into a recently-created senior financial economist position. Having enough people around who are willing and able to follow through on our plans can only have a positive impact on our success rate, at least for the year or so it takes to adjust expectations.

So what exciting things are on the branch's planning horizon? Well, we've got a nice selection of situation and outlook analyses, policy research on Federal credit programs and tax policies, and even some basic research on financial markets planned for the coming year.

In the situation and outlook area, we're planning to significantly broaden our coverage of agricultural banks and the nonfarm financial sector. In addition to the extensive coverage of agricultural lenders in the February issue of the *Agricultural Income and Finance Situation and Outlook Report*, the branch will be initiating a semiannual bulletin on financial and policy developments affecting agricultural banks (commercial banks specializing in farm loans). And, as part of the Division's efforts to periodically report the socioeconomic conditions and trends affecting rural America, the branch will initiate a new annual publication on rural (nonfarm) financial market and credit policy developments.

Our policy-related research is heavily influenced by mandates and ongoing policy debates relevant to the branch's mission. During the coming year we will continue to work closely with FmHA, developing the databases, procedures, and baseline analyses needed to evaluate the new secondary market for FmHA-guaranteed loans when it begins operations. We also plan on completing an evaluation of the various methods for calculating credit subsidies and will undertake an annual survey of State-sponsored farm credit programs to help the Department meet its responsibilities under the U.S./Canada Free Trade Agreement. (Work is currently underway on developing and clearing the State program questionnaire, demonstrating to all involved that whoever named the Paperwork Reduction Act had a unique sense of humor.) Other reports on agricultural credit and tax policies will be completed during the year to provide general background information for the 1990 farm bill debate. In cooperation with ATAD, the branch also plans on initiating a study of the financial market implications of "Europe 1992," and their consequences for U.S. agriculture.

In the nonfarm arena, the branch will be wrapping up a 5-chapter segment of an ARED report on rural development (RD) strategies. The F&T chapters examine the usefulness of financial market intervention as an RD strategy and provide background information on rural financial markets, Federal credit programs, and the finance needs of rural businesses and governments. One outgrowth of this work was the decision to make a major new effort analyzing the determinants of rural business credit needs, and the impacts of Federal credit programs on rural economic development. In addition, research on the rural effects of geographic and product market deregulation and the recapitalization of the thrift industry will continue.

One of the nice things about having a full staff is that it allows those who don't routinely skip over the equations when reading technical journals to pursue some basic research in addition to their other duties. During the year work on market efficiency, forecasting techniques, and intersectoral models will command the attention of several researchers, improving the tools and skills needed to address the policy issues of the 1990's.

#### Publications

"FmHA Guarantees Boost Lending in Some Areas", published in the September issue of *Agricultural Outlook* is one of two articles Pat Sullivan and Bill Herr (Southern Illinois U.-Carbondale) drafted on their analysis of lenders participating in FmHA's guaranteed farm loan programs during FY-88. The article points out that, contrary to what many believe, the guarantee programs appear to have expanded the supply of agricultural credit from participating lenders. The drawback, from a policy perspective, is that the programs rely upon lender participation, which is not universal among rural lenders. Thus, eligible farm borrowers located in areas not served by a participating lender may be ill-served by the guarantee programs. A longer technical version of the paper was also drafted and submitted to a professional journal for consideration.

#### Branch Activities & News

A discussion paper, "The Rural Financial Structure", was drafted by Deborah Markley (U. of Massachusetts) and Pat Sullivan for a session that they lead at a pre-conference symposium, "New Directions in Data, Information Systems, and Their Uses", at the AAEA Conference in Baton Rouge, LA. The paper and session examined emerging issues affecting the farm and rural nonfarm business financial picture, identified existing data sources, evaluated their ability to support research on emerging issues, and suggested possible strategies for dealing with the data gaps. Based on comments received during the session, the paper is being revised and will be published in the symposium's proceedings, *New Directions in Data and Information for Rural Areas*.

As the ERS representative to the Southern Rural Development Center, Pat Sullivan took part in this year's biannual meeting of the Center's Program Advisory Committee. The priority rural development research areas identified by the committee were:

economic development, rural education, community leadership, and the environment. Other high priority issues include: rural health, small scale farming, rural infrastructure, and the need for research on the theory of rural development.

Pat Sullivan attended a seminar on "Federal Lending Programs" sponsored by the National Association of Development Organizations in June. The seminar focused on the current status and future directions of FmHA's Building and Industries loan guarantees, Economic Development Administration Title IX revolving loan funds, and Small Business Administration Section 504 Certified Development Companies.

In June, at the request of the Bureau of Labor Statistics, Pat Sullivan briefed Uda Obella, principal finance officer in Uganda's Finance Department, on the U.S. financial system. Mr. Obella was seeking advice on ways to encourage privately-owned banks to make riskier loans and how to structure a national rural development bank.



A bank in Sykesville, Maryland

## Agricultural Finance Section

### Publications

**Recent Developments at the Farm Credit System** (AIB-572), by **Merritt Hughes**, was published in September. The Farm Credit System (FCS) was created more than half a century ago to assure farmers access to credit for production and investment. Since then, both the FCS and the environment in which it operates have evolved. Because the FCS is required to provide credit exclusively to farm and farm-related businesses, its fortunes are closely tied to those of the farm sector. In the early 1980's, when many farmers experienced financial stress, so did the FCS. This report outlines the recent financial position of the FCS and discusses a number of factors likely to contribute to or impede its recuperation.

"Borrower Rights Legislation in Response to Farm Sector Financial Stress in the 1980's" by **Steve Koenig**, was published as a special article in the May issue of *Agricultural Income and Finance: Situation and Outlook Report*. Federal and State legislation was passed during the 1980's enhancing the legal rights of farm borrowers relative to farm lenders. The objective of this legislation was to keep farmers on the farm by forestalling foreclosure or helping restore farm financial health. Steve argues that changes in the legal rights of farm lenders and borrowers did not come without costs borne by lenders and other borrowers.

"Farmer's Home Administration's Changing Role in Rural Development", by **Steve Koenig**, appeared in the June, 1989 issue of *Rural Development Perspectives*. USDA's Farmers Home Administration is one of the Federal Government's chief sources of credit to rural areas. Initially serving only low-income farmers, the agency's clientele expanded during the 1960's and 1970's to include nonfarm rural residents and their communities. Change was brought on by the lagging rural economy coupled with a declining farm population. Many saw rural economic problems as accelerating migration from rural areas to cities and thus adding to the social and economic problems then facing cities. During the lean farm years of the 1980's, however, the pendulum swung back to farmer assistance. Nonfarm programs for rural housing, community facilities, and rural businesses were pared back. By 1988, when the farm sector had recovered from the hard times earlier in the decade, spending levels for farm programs were also down from earlier highs.

"Farm Credit Recovery Continues" by **Steve Koenig, Doug Duncan, Merritt Hughes, and Jerry Stam** was published in the June issue of *Agricultural Outlook*. The article indicates that the Farm Credit System, commercial banks, and life insurance companies are recovering rapidly from the financial problems of just two years ago, thanks largely to the improving farm economy. The Farmers Home Administration, however, still has a highly stressed farm loan portfolio. The theme of the article was that loan delinquencies have plunged, private lenders' health improves, competition remains keen, and interest rates rose.

"State Credit Programs Phasing Down", by **Doug Duncan and Jim Mikesell (RF&T)** appeared in the August issue of *Agricultural Outlook*. Federal credit subsidies to farmers are well known, but States have also subsidized farm borrowers. The onset of the farm financial crisis in the early 1980's led to a new set of problems and to more State programs. In dealing with these varying economic conditions, State governments either increased agricultural lending via incentives to private lenders, reduced the cost of credit to the borrower, or made direct loans. Many programs combined these subsidy types. State credit subsidies to farmers may have peaked at \$45 million in 1987 near the end of the farm financial crisis. Many States programs are being phased down as the farm financial crisis eases. But even if the programs were to end soon, a legacy of potential costs will remain from outstanding loan guarantees and insured loans for some time to come.

*Interactions Among Federal Crop Insurance, FmHA Disaster Loans, and the 1988 Drought Assistance Program* (89 E-435), a staff paper by **Paul Hughes and David Lins (U. of Illinois)**, was published in April. This work was completed under the auspices of a research agreement with ERS. This study illustrates the interactions, of the various programs and how they work together to produce some peculiar returns to farmers. Given these interactions, it makes it more difficult to decide whether or not to purchase crop insurance. For the producer to make a reasonable decision, there must be more clearly defined consequences of the decision. When the net present value of the FmHA loan is greater than the benefits from the crop insurance, it distorts the decision-making picture presented to the producer.

*Equilibrium Land Prices Under Risk*, a staff paper by **Jack Meyer and Lindon Robison (Michigan State U.)** was also completed under the auspices of an ERS research agreement in April. The paper extends the theory of the firm under risk by including industry equilibrium considerations. Specifically, the comparative statics are derived for a firm in an industry with a fixed supply of an input. The two approaches used to determine equilibrium prices for the input in fixed supply are the capital asset pricing model and the linear mean-variance model. Both of these models are frequently used as deductive tools in agricultural economics.

### Papers Presented & Meetings Attended

Two papers by section members were presented at the American Agricultural Economic Association (AAEA) meeting, July 31-August 2, in Baton Rouge, LA:

In "Exchange Rate Adjustment and the U.S. - Canadian Hog and Pork Trade", authors **Steve Koenig and James Oehmke (Michigan State U.)** econometrically model determinants of U.S.-Canada pork trade from 1973 to 1985. While the strong U.S. dollar had significant negative effects on net exports to Canada, these effects are overwhelmed by Canadian supply shifts. The paper also discusses implications for existing and potential countervailing duty policies.

"Agricultural Bank Loan-to-Deposit Feedback Scenarios Under Financial Deregulation and Innovation", by **Doug Duncan**, used a deterministic commercial bank simulation model to evaluate potential impacts of diminution or alteration of traditional agricultural bank loan-to-deposit feedback relationships. Bank deposit costs have increased but the level of increase is seen to vary according to feedback rate and deposit type.

"Agricultural Bank Performance Under Alternative Risk Aversion and Deposit Feedback Scenarios: A Simulation" was presented by **Doug Duncan** at the Western Agricultural Economics Association meeting in Coeur d'Alene, ID, in July. Using a deterministic, recursive commercial bank simulation model, this paper evaluates performance indicators under increasing risk aversion, varied deposit feedback allocation and noninterest operating cost reduction. More risk-averse banks are shown to make relatively fewer loans, deposit feedback affects funds costs, and cost control is critical to increased profitability.

"U.S. Farm Policies and Farm Asset Distribution: A Micro-Macro Approach" was presented by **Merritt Hughes** at the General Conference of the International Association for Research in Income and Wealth in Lahnstein, West Germany in August. An international group of around 500 government and academic economists gathered for 60 presentations, ranging over the development and application of microsimulation models, the measurement of environmental, poverty, and income concepts, revisions of national accounts, and new satellite accounts.

Merritt's paper presents preliminary results for a farm policy simulation model she is currently developing. Since much of the recent restructuring of the agricultural sector may reflect financial pressures and because many Federal agricultural programs take the form of interventions in credit markets, this model extends previous work by specifying financial conditions and the savings and investment decisions made by farms. The model is run in conjunction with a more aggregated computable general equilibrium model (CGE) which pays particular attention to international trade flows. Variations in relative prices and quantities derived from the CGE model are used to determine changes in the capital/labor ratios, returns to capital, and other financial variables for each of several farm groups. The policy simulations indicate that agricultural programs can have a significant distributional impact across the differing production processes and financial structures which comprise U.S. agriculture.

Merritt also stopped at the Organization for Economic Cooperation and Development headquarters to learn more about international activities concerning agricultural finance and corresponding modeling topics.

"Assessing The Risk of Bank Failure", was presented by **Greg Gajewski** (now with CED) at the "Conference on Bank Structure and Competition" sponsored by the Federal Reserve Banks of Chicago in May. He pointed out that with the surge in bank failures in this decade, regulators and in

the risks facing banks that are both timely and accurate. In the paper, Greg presents and evaluates a logit model that predicts each bank's probability of failure during 1987-89. It will be published by the Federal Reserve Bank of Chicago in the 1989 *Proceedings of a Conference on Bank Structure and Competition*.

#### *Briefings & Miscellaneous*

**Angela Brinson** completed the courses "Managing Stress in the Office" taught by Prime Learning International, and "V-GRASP II", taught by the USDA Graduate School.

**Ted Covey** and **George Wallace** completed the "ERS Writers' Workshop" taught by Pat Blommer of Blommer Management Consulting.

**Jerry Stam** completed the training course taught by GSM Associates entitled "Interviewing and Selection Skills for Supervisors."

### **Rural Finance and Tax Section**

#### *Research & Analysis*

While much of the publicity surrounding the S&L crisis has dealt with its recapitalization, **Cliff Rossi** and **Deano Hagerman** are working on an analysis of the effect of financial performance of rural thrift institutions on credit supply. The model uses a pooled cross-section/time series database from the Federal Home Loan Bank Board. A profit and several output/input share equations are jointly estimated. When completed, a similar analysis for commercial banks will be attempted.

**Cliff Rossi** is undertaking an analysis of the demand for tax preferences and credits such as the capital gains exclusion and the investment tax credit used by farm sole proprietors. He is using a Tobit econometric model to determine which economic and organizational attributes affect the demand for these important tax benefits. This work is particularly relevant in light of recent legislative proposals to reinstate the capital gains exclusion.

**Don Lerman** is examining rural household portfolios with a newly-released version of the 1983-86 Survey of Consumer Finances. The new version of this survey is far better documented than earlier versions and includes a more rigorous weighting scheme for analysis of both cross-section and longitudinal aspects of the survey. This is well-suited to the focus of the study, which is to investigate the extraordinary increase in consumer debt usage since the 1981-82 recession. So far, Don has found that rural households fully participated in this expansion in consumer credit but that many significant rural/urban differences exist in the distribution of consumer debt and the composition of its holders.

**Ron Jeremias** has completed a study of the income and tax characteristics of farm sole proprietors using statistics

derived from a sample of 15,500 individual farm tax returns for 1982. The statistics were provided by the Internal Revenue Service as part of a cooperative agreement with ERS. Results of the analysis indicate that about 65 percent of all farm sole proprietors reported net farm losses on their tax returns with net losses exceeding net profits by \$9.9 billion. The total adjusted gross income of all farm sole proprietors was \$52.6 billion, with \$41.9 billion attributable to wages and salaries. Total income tax liability was \$11.4 billion. About three-fourths of this total tax liability was attributable to farm sole proprietors who earned less than 3 percent of total gross farm receipts. A summary of the study will be published by the IRS in their *Statistics of Income Bulletin*.

## Publications

In "Uncertain Future for Rural S&Ls", published in the May, 1989 issue of *Agricultural Outlook*, Cliff Rossi analyzes the effects of the Bush thrift reform package for rural savings and loans. Under the plan, about 50 rural thrifths would be sold or liquidated by Federal regulators. The 900 or so surviving rural S&L's would pay more for Federal deposit insurance and most would have to raise more capital. Rural areas have a vital interest in thrift industry reform because the strong presence of S&L's in rural finance facilitates capital improvements and thus local economic growth. While lending bottlenecks may occur in the short run as the industry undergoes restructuring, a healthier, more stable industry that favors more solid investments would be better able to stimulate steady local growth.

"Estimates of Farm Progressivity After Tax Reform", coauthored by Cliff Rossi and Ron Durst has been accepted for publication in Vol. 49 of *Agricultural Finance Review*. The article examines the implications of the Tax Reform Act of 1986 for tax progressivity. The article also explores the effect on progressivity of restoring the exclusion for long-term capital gains.

Don Lerman's review of *World Agriculture Toward 2000* (Alexandratos, editor) has been accepted for publication in the *Eastern Economic Review*. Don has also completed a review of *How the U.S. Got Into Agriculture and Why It Can't Get Out* by David Rapp, which will appear in a future issue of *Rural Development Perspectives*.

*Farmer Buying/Selling Strategies and Growth of Crop Farms* by Kenneth R. Krause (former member of branch) was published in April as a USDA Technical Bulletin (No. 1756). The report examines the impact of market economies in both buying and selling on the growth of crop farms.

Stephen Hiemstra was invited to prepare an article for *Agricultural Economics: The Journal of the International Association of Agricultural Economics* on the uses of subject-matter research in government research. A draft of the article uses research on the Federal Agricultural Mortgage Corporation (Farmer Mac) as a case study in subject-matter research.

Steve has also drafted a Rural Development Research Report that examines the prospective effects of bank-product deregulation on rural areas. This report reviews the debate over bank product deregulation, legislative proposals made in 1988, and possible effects on rural areas of the proposals presented. Legislative proposals in 1988 to repeal provisions of the National Bank Act of 1933, known collectively as Glass-Steagall Act, proposed to expand the powers of commercial banks to underwrite securities both in the bank and through a bank holding company affiliate. The addition of new powers may generally encourage greater bank operating efficiency and reduce portfolio risk through diversification. Rural bank participation is expected to be low, however, because most rural banks are small and have relatively little experience with securities markets. Few benefits of new bank powers are therefore expected to accrue to rural banks to offset the added risks of insolvency and potential competition from innovative urban banks. If banks add to the total number of underwriters serving this market, rural issuers may receive more bids on their issues and benefit from increased market competition. Innovative rural banks may not, however, focus their efforts on local markets and the addition to rural economic growth is expected to be minimal.

## Papers Presented & Meetings Attended

A paper and a poster by section members were presented at the American Agricultural Economic Association meeting, July 31-August 2, in Baton Rouge, LA:

"Implications of the Land Transfer Survey's Financial Data for the Farmer Mac Secondary Market", by Stephen Hiemstra and Hyunok Lee (Resource and Technology Division), employed cross-sectional data from the Land Transfer Survey to analysis the structure of interest rates in the rural land market. Preliminary results show that statistically significant variation in interest rates existed between regions, lenders, ownership classes, and land uses during 1985 and 1986, particularly for fixed-rate mortgages. These results, although not controlling for explanatory factors such as loan quality, are consistent with the hypothesis that the secondary market being established by Farmer Mac could have a significant impact on the allocation of credit in rural land markets.

"Farmer Mac Comes on Line", by Stephen Hiemstra and Juliana King (Economics Management Staff), presented the results of ERS research on Farmer Mac. It highlighted the progress of Farmer Mac in preparing for the market operations expected to commence this fall and outlined the structure of the proposed market.

"Outside Control Of Rural Banks: Lessons From Principal-Agent Analysis", by Dan Milkove and Vincy Fon (George Washington U.), was presented at the annual conference of the Western Economic Association, June 19-21, in Lake Tahoe, NV. Some people fear that geographic deregulation of banking may eliminate locally owned and managed rural community banks, and that outside ownership of rural banking offices might result in inadequate servicing

of rural credit demand. Dan and Vincy suggest that these fears may be overblown, provided that the principal (say an urban-headquartered bank holding company) wants to maximize profits and is aware that profitable investment opportunities exist in rural areas. It is in its best interests, then, to provide proper incentives to the agent (the manager of the rural bank affiliate) to maximize the affiliate's expected profit, which in turn requires the manager to gather information concerning local investment opportunities.

Ron Durst attended the 41st Annual Virginia Conference on Federal Taxation in Charlottesville, June 1-3. Speakers at the conference included several leading tax experts from both government and private industry.

Stephen Hiemstra attended a conference, "The European Community in the 1990's: Emerging Concepts and Policies", sponsored by the European Community (EC) Studies Association at George Mason U., in May. The conference, which drew speakers from both the EC and the U.S., had sessions on the Common Agricultural Policy, monetary integration, and other topics.

Don Lerman attended the Society of Government Economists June luncheon on "Poverty and the Underclass: Priorities for the Next Decade", presented by Isabel Sawhill of the Urban Institute.

#### *Briefings & Miscellaneous*

Stephen Hiemstra met with Henry Edelman, President, and Nancy Corsiglia, Vice President for Merchandising of Farmer Mac in July. Steve was also interviewed twice more by Jennifer Lieffers, a reporter for *Farm Futures*, and by Patrick O'Leary, a reporter for USDA Radio News, about current developments with Farmer Mac.

## FARM AND RURAL ECONOMY BRANCH

### View from the Branch

by Tom Carlin

August and September are the months that ERS staff are formally asked to account for their research stewardship over the last year. This provides an opportunity to look at our accomplishments as they relate to the branch "charter". Examining the farm labor arena is one of the major articles in that charter. A continuing demand exists for our statistical and descriptive analysis of the agricultural work force's characteristics. The publication that summarizes Federal laws and regulations affecting agricultural employers has become a handbook for those involved in such issues. Our staff has also been heavily involved in carrying out the Department's mandate to provide an estimate of the need for workers in seasonal agricultural services as specified in the Immigration Reform and Control Act of 1986 (IRCA).

Another major article in our charter is to understand and project the process of structural change in U.S. agriculture. To this end, researchers have been developing and analyzing longitudinal data on farms and farm households. Farm level data comes from matched files of all farms that respond to two consecutive Censuses of Agriculture. We will soon have access to three such files; a 1972-78 match, a 1978-82 match, and a 1982-87 match. While the number of variables is limited, this rich data set has allowed researchers to generate change matrices and also to experiment with methods to make these matrices dynamic rather than static. With these tools in place, we will soon start developing a structural change model and use this model to forecast farm structure.



Harvesting lettuce on the Martella farm near Salinas, California.

We are also learning about structural change by analyzing longitudinal data obtained from a sample of farm households in each of several States. This work, done cooperatively with researchers at land grant universities, provides a much richer data set because detailed information is available on both farm and nonfarm activities of household members. With the data collection phase mostly behind us, researchers have started to mine some of the information by examining the characteristics of families who left farming and how household income changes over time.

The third major article in our charter is to analyze the ties that bind farming with other sectors at the community level. Using the county as the major building block, staff have developed homogeneous farming regions of the United States that reflect the diverse topography, settlement patterns, and other factors that influence how the farming sector evolves in different areas of the United States. In concert with the upgrading of our capacity to model local and regional economies, this regional farming schema enhances our capacity to assess how shocks to the agricultural sector will play out in various rural settings.

It has been a good year for the Farm and Rural Economy Branch. I thank all the branch staff for their hard work in making this progress possible.

## Agriculture and Community Linkages Section

### Publications

**Bernal Green** and Lynn Reinschmidt (Mississippi State U.) have completed a manuscript addressing conditions in the Lower Mississippi River Delta region, *Structure and Change in Socioeconomic Conditions: The Mississippi Delta*. The report will be published this fall by the Mississippi State U. Experiment Station. This work is justified due to passage in March 1988 of the Delta Development Act drafted by Senator Dale Bumpers (D-Ark). The legislation provides funding (\$2 million in FY-89) for a nine-member Commission to review and research the needs of the lower Mississippi River Delta region. The region delineated includes 214 counties in seven states.

### Papers Presented & Meetings Attended

**Bernal Green** (stationed at the U. of Arkansas) and Mary Jo Schneider (U. of Arkansas) were in Little Rock, July 19-20, to explain results of their research report, *Retirement Counties: A Development Option For The Nineties* (Special Report 134, Arkansas Experiment Station in cooperation with ERS, Feb., 1989). They assisted Mala Daggett and Jane Ann Crone (Aging and Community Education, a nonprofit foundation) in making a presentation to the Arkansas Industrial Development Commission. ERS classifies 36 of Arkansas' 75 counties as "destination retirement counties" in economic character, part of 87 such counties in the Ozarks parts of Arkansas, Missouri and Oklahoma.

## Farm Structure Section

### Publications

*Effects of Population Growth and County Type on Farm Structure, 1970-80*, by **Nora Brooks, Donn Reimund**, and **Neal Peterson**, examines the impact of county level population change on farm structure between 1970 and 1980 for regions with varying growth rates using an analysis of variance technique. Eight States representing four regions with different growth rates were used as the study area. Counties in these States were stratified into three types on the basis of their metro-nonmetro status. The farm structure variables examined were related to aggregate farm structure, tenancy, and operator off-farm employment. Both the region (growth rate) and county type variables had significant effects on most aggregate farm structure variables.

A major implication of this analysis is that agriculture and its organizational structure is not independent of socioeconomic changes in the nonfarm rural economy. For counties where agriculture is still a dominant factor in the local economy, farm structure may still be a major force in determining socioeconomic structure and well-being. For the other counties, the structure of agriculture may be as sensitive to developments in the local nonfarm economy as it is to such factors as farm technological innovation and farm policy. This conclusion implies that analyses of farm structural change need to consider changes in the local and regional economic environment as factors in farm structural change, along with the more traditional technological and policy factors.

"Community Ties to the Farm", by **David Henderson**, **Luther Tweeten**, and **Dean Schriener**, appeared in the June, 1989 issue of *Rural Development Perspectives*. Since farmers buy goods and services in nearby towns, farm contraction affects their economies. Smallest towns are hit hardest, often losing retail firms. As the number of businesses decline, the incentive to shop in a place also declines, hurting the remaining businesses. As a result, larger towns may actually grow as firms located there pick up the remaining farm trade. This study examines the economic realignment of rural places that occurred in the three counties in the Oklahoma Panhandle between 1969-84.

"Pawpaws Could Become the Fruit of the Future", in the *Agricultural Roundup* section of the May issue of *Farmline*, discussed **Neal Peterson**'s work to cultivate the fruit at the Wye Research and Education Center of the U. of Maryland-Eastern Shore. Because they are delicious, nutritious, and North America's largest edible native fruit, Neal is not deterred by their present obscurity. "Other foods native to the Americas have faced difficulties overcoming doubts or indifference, including corn, beans, squash, tomatoes, and potatoes." Moreover, in some cases, such as blueberries, USDA research has hastened the adoption.

### Papers Presented & Meetings Attended

At the Florida A&M U. campus in Tallahassee, FL, in

July, David Henderson attended a symposium on "Methodologies For Rural Revitalization". Speakers from several states provided an overview of some extension efforts in their States for formulating and delivering extension programs to the rural population. The symposium emphasized new innovative delivery techniques such as the use of local paraprofessionals and new community based organizations (CBO's) in the extension effort.

## Agricultural Labor and Household Well-Being Section

### Publications

*The Agricultural Work Force of 1987: A Statistical Profile* (AER-609), by Victor Oliveira and Jane Cox, was released in May. The report is a statistical and descriptive analysis of the economic and demographic characteristics of the three components of the agricultural work force: hired farmworkers, farm operators, and unpaid farmworkers. Almost 7.7 million people were employed on U.S. farms at some time during 1987, including 2.5 million who did hired farmwork, 2.8 million who operated a farm, and 3.6 million who did unpaid farmwork. Over 1 million, or 13 percent of the agricultural work force, were engaged in more than one of these three activities during the year. Almost 17 million people resided in the 5.4 million households containing a member of the agricultural work force. About 4.3 million of these households, containing almost 13 million people, were headed by a farmworker.

*Employment Stability Among Workers: A Case Study from Nine Kentucky Counties, 1979* (AGES 89-31), a staff report by Donald Larson, is part of a cooperative study by ERS and the U. of Kentucky that identified and examined the effects of the 1980's recession on employment stability in south-central Kentucky. It examines employment stability in this area just prior to the recession, a period of rapid employment growth. While concern about employment stability is not new - it became an issue during the 1960's - its nature is not been fully understood. Past studies of industrialization and resulting employment growth have recognized the issue but little research has been done.

Using regression analysis, the report details a number of influences on employment stability. It shows that expanding job opportunities do not eliminate employment instability. However, it also indicates that disruptions in employment may be a natural process within any dynamic economy and that job growth can dampen the long-run income effects of job instability.

"Transitions of Poverty Amidst Employment Growth: Two Nonmetro Case Studies", by Donald Larson, was published in the Spring, 1989 issue of *Growth and Change: A Journal of Urban and Regional Planning*. The theory behind employment growth as a strategy for lessening the poverty problem is based on a premise that job opportunities are inadequate. However, rapid employment growth in some nonmetropolitan areas of Kentucky and Georgia did not

significantly reduce the poverty problem. A large majority of poor households have no potential to leave poverty via employment since age, health, and other limiting factors among household members restrict entry into the work force. Also, for some the condition of being poor resulted not because they had never worked, but because they tended to have worked at marginal, low-wage jobs. Meanwhile, some jobs went unfilled because employers could not find persons who could meet the right requirements. Since the literature addressing the issue of the effects of employment growth on poverty is inconclusive and sometimes contradictory, clarification of how employment gains are distributed among local residents is essential.

### Papers Presented & Meetings Attended

"Changes in Farm Household Well-Being in Southwestern Wisconsin, 1982-1986," presented by Susan Bentley and William E. Saupe (U. of Wisconsin) at the 1989 Annual Meeting of the Rural Sociological Society, in Seattle, WA, examines changes in income, asset and debt levels, and net worth over a 4-year period, using a longitudinal study of 342 farm households in southwestern Wisconsin. Significant changes in sources of income, but not in the level of total household income, were observed. On average, both asset values and outstanding debts decreased during the 1982-86 period, as did net worth. Despite the sharp declines in the per acre value of farmland, however, almost a fifth of the farm households increased their net worth during that time.

The authors also developed a viability ratio, incorporating both income and solvency measures of well-being. In 1982, 56.4 percent of the farm households were "viable", i.e., were able to meet all of their financial obligations. Four years later, after a period of farm financial stress, 60.2 percent of the households who had continued to farm were classified as "viable". However, when each household was classified over time, the study found that over 30 percent of the households changed their viability status over the four-year period. Furthermore, despite little apparent change in measures of well-being such as average household income and rates of viability, households were clearly making changes to adapt to the changing farm financial situation.

## RURAL BUSINESS AND GOVERNMENT BRANCH

### View from the Branch

by Norman Reid

This is the final **View From the Branch** column I will write for the newsletter. Ken Deavers recently asked me to take on a new assignment as Deputy Director for Rural Development. The change takes effect in October; shortly thereafter, the Rural Business and Government Branch should have a new Chief, whose duty it will be to keyboard these few lines every now and then.

My impending change seems like a good opportunity to reflect on my four years as branch chief and what, from my perspective, we've accomplished during this time. First, we've built a new staff. When I took over the newly-formed RBG Branch in October, 1985, rural development was overshadowed by the financial problems that then plagued the farm sector, and staff cuts were the order of the day. Most of our staff left; now only two members of the branch remain from the "old days." Our new staff is highly qualified, and I am very proud of what they've been able to accomplish in the time they've been here.

Second, we've improved the timeliness of our work. We now report on trends in the rural economy within months of the time we receive the data. Our reports are being put on a regular schedule so readers can know when to expect them. We hope to improve on this record by bringing out reports even faster, and by making up-to-date estimates of rural industrial trends. Watch this space for further news.

Third, we've added to our program by looking specifically at rural development strategies and how well they work for different rural places. It seems incredible that there is no place in the government that policymakers can turn to for research-based information about rural development policy alternatives. This is the kind of information we aim to provide.

In general, the Branch has made a solid contribution to ERS' effort to make its research program important to rural development policymakers. But it's too early to declare success. Despite what we've learned, there are always new challenges. With the team we've put together in the Branch, I'm confident that we will meet them.

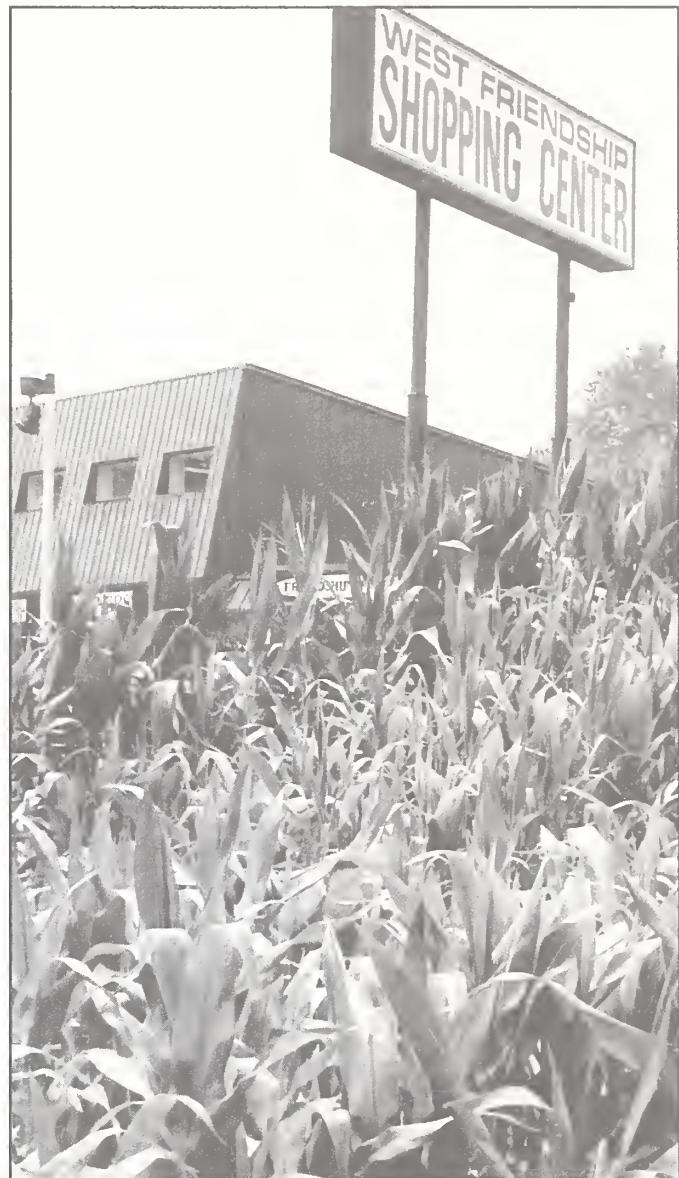
Incidentally, I'm not moving away, just moving up. My interest has always been in the Division's full rural development program, and the change in duties will give me the chance to work more closely with a wider range of people and issues. It will be fun and I'm looking forward to it.

#### Branch Activities & News

**Norman Reid** recently completed a two-month assignment to the Revitalization Task Force. The Task Force was charged by the Secretary of Agriculture with studying USDA's rural development programs and making recommendations concerning ways that USDA could strengthen its administration of those programs. Norm was the principal author of the Task Force's final report, *A Hard Look at USDA's Rural Development Programs*, which drew on a survey of USDA field employees and discussion groups of USDA Washington office staff.

Among the report's findings and recommendations are these:

- Rural development benefits both rural residents and the Nation as a whole, since rural problems inevitably spill over into other areas.



Two rural activities converge.

- The goal of achieving economic development must be distinguished from those of economic growth and quality of life, although these objectives often are unconsciously intertwined in policy discussions.
- Rural policy in the U.S. consists, for the most part, of a collection of individual programs that do not add up to a consistent, well-thought-out strategy for achieving well-understood goals.
- Developing a clear conception of mission is the first step USDA needs to take in order to better plan and coordinate its rural development programs.
- Improved program performance must be based on appropriate use of information; USDA needs to integrate the work of its information agency, ERS, with its various program delivery agencies.

Because of Norm Reid's new appointment, the Rural Business and Government Branch is seeking a Supervisory Economist/Social Science Analyst (GM-15 level, starting salary \$57,158) to become Branch Chief. The person in the position has responsibility for coordinating and managing agency research, analysis and data development related to community facilities. Besides basic knowledge of social science and/or economic theory and techniques, a candidate needs a knowledge of rural communities, businesses and governments, including rural business characteristics, industrialization, energy use, and State and local government services and resources. The announcement number is ERS-90-009. Someone interested in applying should contact Vickie Davis at 202-447-6130.

#### Publications

***The Economic Cost of Unemployment and Underemployment*** (AGES 89-17), by Merv Yetley. Measures of labor distress, both from unemployment and underemployment, are important indicators of the strength of rural and urban economies. They also provide a basis for a fuller understanding of the overall economic problems in U.S. rural areas. This report describes a research methodology developed to estimate the magnitude of lost earnings due to labor distress, which are viewed as a cost to the national economy. The results indicate that: 1) underemployment contributes more to the total cost of labor distress than unemployment for nearly all worker categories at both the national and the State level; and 2) rural workers lose relatively more earnings to underemployment than urban workers. The report concludes with a discussion of policy implications and further data needs. One policy implication is that the cost of labor distress associated with the working poor supports the contention that both the basic education of new entrants and the retraining of distressed workers is a continuing need.

In "Needed: A Balanced Approach to Rural Development", in the September issue of ***Agricultural Outlook***, Norm Reid states that, while recent improvements in rural job creation are encouraging, they are only now bringing the rural economy back to prerecession levels. He also emphasizes that the recent rural economic problems were not principally the result of farm sector difficulties, despite the coincidence in timing. Agriculture's role in the rural economy is shrinking and most rural areas now depend on nonfarm industries. Even as farm output grows, continuing technological advances that have raised labor productivity 40 percent in the last decade make further declines in the number of farms and farm workers likely. Because of farming's declining importance, farm programs have become less relevant to rural economic problems. Also, since 60 percent of farm household income in 1986 came from nonfarm sources, both farmers and nonfarmers in most rural counties would benefit from a broader perspective that gives more weight to nonfarm rural industries. Yet farm programs remain above their 1980 levels, while Federal assistance to nonfarm rural activities were cut heavily in the early 1980's.

## Rural Business and Industry Section

### Research & Analysis

**Martha Frederick** is beginning work on a new project - a State-level chart and databook. It will contain background information on the land area, population, and economies of metro and nonmetro portions of each State. It will also show the changes for 1986-87 in the nonmetro economies of each State by industry.

### Publications

The section's work to improve its ability to monitor and promptly report conditions and trends in the nonfarm, rural economy will soon result in the release of several new reports. A comprehensive report of rural economic trends, ***Patterns of Change in the Rural Economy, 1969-86***, by Alex Majchrowicz, is scheduled to be published in October. The report uses Bureau of Economic Analysis (BEA) county-level employment and earnings data to measure the performance of nonmetro counties by region, urban population, ties to metro areas, and economic base.

Although that report is not yet published, Alex has already begun work on a preliminary update of the report, using recently released BEA data for 1987. The initial update, coauthored with Linda Ghelfi (HR), will shed new light on how rural industries fared during the continuing economic recovery. Relatedly, Alex and **Martha Frederick** are actively working with Kathy Albetski (BEA) to secure additional data for a more detailed, updated report later in the year.

Alex's article, "The Changing Importance of Agriculture to the Rural Economy", which compares BEA data for 1969 and 1986, was published in the August, 1989 issue of ***Agricultural Income and Finance Situation and Outlook Report***. Analysis of this data reveals that while agriculture continues to play a large role in the nonmetro economy, especially in the Midwest and more rural parts of the Nation, its importance has diminished over the last two decades in all categories of nonmetro counties, both adjacent and nonadjacent to metro areas. The transformation of the agricultural industry explains much of its decline as a provider of employment and personal income. The adoption of new production methods and the purchase of new equipment has allowed fewer farmers, on fewer and larger farms, to produce more goods. While changes in agriculture are significant to the economic welfare of some rural areas, therefore, they may have little effect on rural areas that are less dependent on farming.

The ***Explanatory Guide to the ERS Metro and Nonmetro Labor Force and Income Data Diskette*** (AGES 89-39), by **Martha Frederick**, was released in August. It explains the electronic product, entitled ***Rural Development***, which contains labor force, income, and earnings data for 1969-86 in 12 LOTUS 1-2-3 tables. The order number for four 5.25 inch disks is #88013A (cost: \$55); the order number for one 3.5 inch disk is #88013B (cost: \$25).

"The Product Cycle and High Technology Industry in Nonmetropolitan Areas, 1976-80", by James Miller, will be published in the Fall issue of *Review of Regional Studies*.

#### *Papers Presented & Meetings Attended*

"The Export Potential of Selected Services-Producing and Manufacturing Industries", coauthored by Shirley Porterfield and Thomas Cox, was presented at the American Agricultural Economics Association annual meetings in Baton Rouge, LA, July 30-Aug. 2. The paper analyzes factors affecting the proportion of sales made outside the State (exported) by establishments in selected services-producing and manufacturing industries. Results suggest that establishment, rather than locational, characteristics influence the level of export sales.

Shirley also attended the preconference seminar on "New Directions in Data, Information Systems, and Their Uses."

#### *Briefings & Miscellaneous*

**Martha Frederick** provided data on rural economic conditions to Ron Knutson and Dennis Fisher of Texas A&M U. to assist them in their development of a five-state workshop on rural development in New Mexico, Texas, Oklahoma, Louisiana, and Arkansas.

Because of Herman Bluestone's retirement (see PERSONNEL section), the division is seeking a Supervisory Economist/Social Science Analyst (GM-14 level, starting salary \$48,592) to be the new head of the Rural Business and Industry Section. RBI is responsible for monitoring and analyzing economic conditions in the nonfarm rural economy and conducting research on the process of economic growth and development in rural areas. The section maintains a database on the rural economy, including employment and income data by industry and microdata on business ownership characteristics. The section's research is used by numerous government bodies and is reported in a variety of publications. The section has a permanent staff of seven researchers and one secretary.

### **Government and Development Policy Section**

#### *Research & Analysis*

**Tom Rowley and John Redman** are currently researching per capita income divergence in metro and nonmetro areas by State. Preliminary results indicate that over the 1969-87 period per capita income in nonmetro areas varied more than in metro areas. Furthermore, the variation in nonmetro income is increasing, while metro variation is decreasing. The analysis will also examine the components of per capita income - earnings, dividends, interest, rent, and transfer payments - for variation.

The research team of **John Redman, Dave Sears, and Molly Killian (HR)** and is continuing its investigation of the growth and stability of earnings in nonmetropolitan counties

over the 1969-86 period. Several interesting preliminary findings are emerging. Overall, across the 17-year period, there was no change in earnings per job in nonmetro America; thus, the overall two percent annual improvement found in earnings was attributable almost entirely to increases in the amount of employment. When the economic base of localities is considered in conjunction with earnings growth and stability, the authors found that diversified counties and manufacturing counties had a somewhat better performance than others, but even the most attractive economic base is no guarantee of a strongly performing economy. When compared with the half of counties with lower earnings stability, the typical county in the higher stability group is much larger, much more densely settled, more urbanized and more likely to be adjacent to a metro area.

**Rick Reeder and Elliott Dubin** completed a short unpublished paper, in "bullet form," entitled "Nonmetro Public Services: Trends and Issues." One interesting finding was that local governments in farming States actually increased their current expenditures - in real, per capita dollars - during 1984-87, a time period corresponding to the so-called "farm crisis." This suggests that the farm crisis had less of an immediate impact on local public services than was feared by some observers at the time. However, the fiscal effect of the farm crisis may still be seen in farm States' 1.9 percent per year increase in current expenditures, which was slightly below the 2.3 percent rate of increase for rural States in general, and substantially below the 3.6 percent rate for urban States. More research would be required to resolve this issue. Certainly, some localities and some types of governments were affected more than others, but the State-level data used in this study did not allow disaggregation within States. In addition, some have argued that the fiscal impacts of the farm crisis will be fully revealed only over the long run. Hence, this question may have to be reevaluated at a later date when data are available for examining long-term impacts.

**John Redman**, with the assistance of **Lisa Mendelson** while she was with the section as a summer intern, is currently undertaking a study of the Job Training and Partnership Act (JTPA) Title II program for the economically disadvantaged. The study will focus on a metro/nonmetro comparison of program activity levels, participant characteristics, and performance measures. It will also examine the relationship between program activity levels and indicators of economic distress.

**Lisa Mendelson, Darek Bushnaq and Michael Noonan** served as 1989 summer interns in the GDP Section. While here, they compiled a data series of nonmetro county proximity to metro statistical areas. Its primary components are variables indicating whether a nonmetro county physically adjoins a metropolitan statistical area and whether a nonmetro county is within 50 miles of a metropolitan statistical area. If the answer to either of these questions is "yes", then the size of the pertinent metropolitan area is also indicated. This information is stored in an SPSS/PC+ system file and a Lotus 1-2-3 worksheet file.

The three also authored an in-house report on the feasibility of measuring visual amenities in nonmetropolitan counties. In their paper, they discuss specific variables that would be appropriate to include in a measure of visual amenities, and delineate the data availability problems.

In June, RBG hosted the second in a series of mini-conferences on the "Foundations of Rural Development" that are being organized by **Norm Reid, Tom Rowley, Dave Sears and Merv Yetley**. This conference's topic was education and its relationship to rural economic development. Researchers from academia and government attended the two-day session. The remaining conferences will focus on physical and social infrastructure and modeling techniques. A book incorporating material from the conferences will be published at the end of the series.

Working in conjunction with **Dave Sears**, a team of rural sociologists headed by Professor Jan Flora of Virginia Polytechnic Institute is in the middle of a two-year study of rural self-development, i.e., a home-grown approach to economic development, contrasted most starkly with smokestack-chasing. Canvassing key informants in state and national agencies and organizations has resulted in the preliminary identification of nearly 300 instances of local self-development efforts. Each of the nominated sites is being contacted to obtain detailed information on the implementation of the local effort. The researchers will also conduct a handful of in-depth on-site case studies. This research is being carried out as a cooperative agreement.

#### *Publications*

***Local Response to Federal Budget Policies: A Study of Nonmetropolitan Communities in Ohio*** (AGES 89-24), by Philip A. Russo, Jr., Douglas H. Shumavon, H. Kenneth Hibbeln, and Frank McKenna, Jr. is the result of the completion of the first of two stages of our cooperative agreement with Cleveland State U. It investigates how declining Federal financial support to rural local government and nonprofit service providers during 1981-86 affected six nonmetro counties and six small cities in Ohio. In general, local officials anticipated revenue cutbacks and formulated contingency plans that were used to offset losses, thereby deflecting a crisis. The report's final section presents some comparisons with Ohio's large cities and urban counties. The second stage of research will focus on some critical issues in more detail.

A report entitled ***A State-Level Comparison of Metro and Nonmetro Economic Performance over the 1979-86 Period***, co-authored by **John Redman and Tom Rowley**, will be published by ERS shortly. The report finds that, on average, the metropolitan economies of individual states exhibited better economic performance during the 1979-86 period than their respective nonmetro economies. Wide variation existed across states, however. To highlight these differences, the report groups States into five performance categories. This typology is offered as an aid to policymakers in determining whether a unique "rural development policy" may be appropriate for individual states.

As part of a cooperative agreement with the U.S. Advisory Commission on Intergovernmental Relations (ACIR), **Rick Reeder** has written a paper that examines the challenges rural governments face when they try to raise revenues from nontraditional sources, such as local income and sales taxes, impact fees, and user charges. The paper will be an introductory chapter in an upcoming ACIR report on rural revenue diversification. Rick and Cliff Rossi (F&T) completed the first draft of a paper on financing rural governments, to be a chapter in the forthcoming ERS volume on rural development strategies.

#### *Papers Presented & Meetings Attended*

"**Growth and Stability of Rural Counties, 1969-86**", was presented by **Dave Sears** and **Molly Killian (HR)**, who co-authored the paper with **John Redman**, at the annual meeting of the Rural Sociology Society in Seattle, WA, in August. It summarizes work to date on their growth and stability research (described above in *Research & Analysis*). A variety of other papers at the conference dealt with aspects of rural economic development.

**Dave Sears** was a discussant on an economic development panel at the Western Agricultural Economics Association meeting in Coeur d'Alene, ID, in July. Papers describing rural development policies in the states of Idaho, North Dakota and Washington were presented by officials from those States. Sears described ERS research that could help shed some light on the rural development problems faced by these three states. In particular, Sears noted that, using the Redman-Rowley classification scheme (described above in *Research & Analysis*), the three states all fell into the Weak/Unbalanced category, making rural development efforts especially difficult to design and implement.

**Elliott Dubin** attended an ACIR conference that critiqued the paper "**The Public Funding of Elementary and Secondary Schools**", by **Vincent Munley** of Lehigh U. The paper presents options available to State policymakers interested in reducing differences in per pupil expenditures among State school districts. Drawing on his current research, Elliott suggested that the paper should note that State aid formulas should give proper weight to the fact that the costs of education in sparsely settled rural areas are often higher than in urban areas.

Elliott also conducted an ERS seminar, "**Financing Rural Elementary and Secondary Education**", which was based on a paper he presented at an American Education Research Association (AERA) meeting in San Francisco, in March. The paper focused on the differences in education spending per pupil in metro and nonmetro counties, the wide variation in per pupil spending among nonmetro areas, and the role of State aid in reducing the differences in education resources among counties.

#### *Briefings & Miscellaneous*

A comprehensive GDP Section bibliography, covering the years 1983-89 has been compiled and is available by request.

## HUMAN RESOURCES BRANCH

### View from the Branch

by David McGranahan

Glenn Fugitt, who is staying with HR until midwinter (when he heads back to Wisconsin !?!), remarked to me that labor market issues seem increasingly visible at Rural Sociological Society meetings. So I compared this year's program with the 1979 program. He's right. Labor market issues were addressed more often this year than community, poverty, health, or domestic demographic issues. In contrast, only a few people looked at rural job opportunities and earnings in 1979. Agriculture, which was the topic of over a third of the presentations this year, has had the greatest numerical increase over time. Environmental and resource issues have also gained in importance.

Having VFB in mind, I next looked at the studies put out by HR in 1978-79 and compared them with what we are doing today. I am happy to report that we are not doing exactly the same thing.

Many of the articles and reports in 1979 dealt with the population turnaround. Glenn Fugitt (through a cooperative agreement), **Calvin Beale**, and David Brown (Cornell U., formerly Associate Director), who authored many of these studies, have recently had their book on *Rural and Small Town America* published by Russell Sage. The turnaround, however, is not the book's major topic.

Some issues remain: persistently poor areas; the potential impact of the latest welfare program; education and training programs; and the elderly. But some are new: children and female-headed families; the working poor; the changing importance of education for individual and local area earnings; and the importance of transfer payments.

Much of the change reflects the increasing complexity of the rural economy and society and our understanding of that complexity. The Population Section still studies the farm population, but because so many farmers live off the farm, a new series by **Margaret Butler** has been initiated on the farm entrepreneurial population, irrespective of residence. Also, while work on the situation of women continues, more is done on households and families. Thus **Leslie Whitener** and **Jan Bokemeier** are analyzing family household employment strategies. Much more of the analysis is using multivariate techniques, to understand county and labor market area growth, for instance.

Do we know more? I am not sure. We have better and more recent information on what is going on. But what is going on, at least in terms of employment and income trends, changes back and forth over time. It is not enough to describe and analyze each individual trend. An important part of our current work is to understand the broader national and international forces which shape rural opportunities and change.

### Publications

"Nonmetro Youths Lagging in Education", by **Dave and Linda Swanson**, was published in the June issue of *Rural Development Perspectives*. Only 14 percent of nonmetro adults age 25-64 had a college degree in 1988, compared with 25 percent in metro areas, and nearly 25 percent of nonmetro adults had not graduated from high school. The lower levels of education in the nonmetro population result from both lower educational attainment among nonmetro "natives" and the net outmigration of nonmetro college graduates to take advantage of better job opportunities in the city. Since the mid-1970's, the percentage of nonmetro young adults who have completed high school has risen but the percentage of nonmetro college graduates has dropped.

Dave's article, "Rural Economies Stronger But Still Vulnerable", in the May issue of *Agricultural Outlook*, states that the economic problems that have plagued rural areas during most of the 1980's seemed to have eased. Yet, the nonmetro unemployment rate remains substantially above the metro rate, despite nearly full employment at the national level. Moreover, continuing rural dependence on low-growth (and often low-skill) production jobs probably leaves rural workers at a disadvantage. Dave also points out that rural job market trends are increasingly important for farmers as more of them rely on off-farm income to make up for the vicissitudes of farming.

### Papers Presented & Meetings Attended

At the annual meeting of the Rural Sociological Society in Seattle, WA, in August, **David McGranahan** delivered a paper, "Earnings Equations for Urban and Rural Areas, 1974 and 1986", which discussed rural job opportunities in the information age and the importance of education.

### Income and Well-Being Section

#### Papers Presented & Meetings Attended

"Rural Poverty: A Continuing Problem", was presented by **Donald Bellamy** and **Robert Hoppe** at a Washington Statistical Society Lecture on May 8. **Linda Ghelfi** was moderator of the session and **Patricia Ruggles** (Urban Institute) was the discussant. The speech pointed out that poverty is as much a rural problem as an urban one. Poverty rates for various population groups in rural areas are generally within a percentage point or so of the corresponding central-city rates. The exception is the poverty rate for blacks, which is actually higher in rural areas than in central cities.

Furthermore, the poor in rural and urban areas have different characteristics. For example, the rural poor are more likely to live in married-couple families than either the central city or suburban poor. The rural poor also show greater attachment to the labor market than the urban poor, particularly the central city poor. Thus, issues such as the minimum wage, taxes, the availability of jobs, job training,

unemployment, and the strength of the economy are as important in any discussion of rural poverty as they are in addressing urban poverty. Labor market strategies, however, are not effective ways to reach the rural poor who cannot work, such as the elderly. Income transfers seem to be the most effective way to reach these people.

"Rural People in Poverty: Persistent Versus Temporary Poverty", by **Peggy Ross** and **Elizabeth Dagata**, was presented at the National Rural Studies Committee meeting in Greenville, MS, in May. Using data from the U. of Michigan's Panel Study of Income Dynamics (see below in *Briefings & Miscellaneous*), the authors found more poverty among nonmetro than metro residents, and little difference in the amounts of persistent (long-term) and temporary (short-term) poverty by residence. Among those who are poor, the elderly, children, and female-headed families were prone to persistent poverty, while working-age poor and male-headed families were more inclined to temporary poverty. Because the persistent and temporary poor are so different, proposals to alleviate poverty must consider these differences. Strategies to improve employability and keep the employment rate up will help many of the temporary and working-age nondisabled persistent poor to escape poverty. For those poor not expected to work, many of whom are persistent poor, on-going cash assistance and access to social services are recommended.

In "The Income Status of Nonmetro Areas: Effects of the Current Economic Recovery", presented at the annual meeting of the Rural Sociological Society (RSS) in Seattle,

WA, **Linda Ghelfi** found that nonmetro per-capita income had not kept up with metro income during 1982-87. Nonmetro real (in 1987 dollars) income was \$10,890 per capita in 1982, 75 percent of metro income. By 1987, nonmetro income had grown to \$11,996, but dropped to 73 percent of metro income. Slower recovery of nonmetro earnings accounts for most of the growing gap between metro and nonmetro incomes. Factors contributing to slower nonmetro earnings recovery include slower growth in jobs and the ratio of jobs to population, slower growth in average earnings per job, and a retarded start to the recovery in many nonmetro counties.

As Secretary of the RSS, **Peggy Ross** attended the annual meetings in Seattle. She also presented an overview of welfare reform legislation at a meeting of the RSS Rural Poverty Interest Group.

An ERS seminar, "The Elderly and Their Sources of Income: Implications for Rural Development" was delivered by **Robert Hoppe**, in August. The seminar was based largely on the Survey of Income and Program Participation (SIPP) conducted by the Bureau of the Census. Although the elderly's unearned income from property and government transfer programs can have an important economic impact on nonmetro areas, they should not be viewed solely as potential customers for rural businesses. Many elderly are poor, particularly in rural areas. Attracting elderly migrants has been a successful rural development strategy in the recent past, but its potential is limited by the number of elderly with adequate means and the desire to migrate.

Some reports may overstate the elderly's potential economic impact if they assume that property income goes mostly to the elderly. The elderly actually control only about 32 percent of the property income recorded by BEA.

#### *Briefings & Miscellaneous*

The section has obtained the data tapes of the Panel Study of Income Dynamics (PSID), and accompanying documentation is under order. The PSID is a national longitudinal survey of persons in household units covering the years 1968 to present administered by the Survey Research Center at the U. of Michigan. The survey includes a mixture of economic, social, demographic behavioral and attitudinal information collected from the sample annually, with the most current year available being 1986. Approximately 5,000 families were included in the original sample, of which less than 15 percent have remained intact. New "second generation" households formed by members of the original 5,000 families have increased the total number of households to over 7,000. PSID data



Something old, something new - together in a rural home.

previously obtained from the U. of Michigan has provided the basis for several reports on persistent and temporary poverty in the Income and Well-Being Section.

Peggy Ross and Robert Hoppe provided Dr. Robert Dalrymple, Office of Analysis and Evaluation, Food and Nutrition Service (FNS), with results of ERS research on the well-being of rural people and the rural poor. The information was needed as input to the FNS Acting Administrator's testimony before the House Nutrition Subcommittee hearing on Hunger in Rural America. In their discussion, Peggy and Robert observed that ERS research suggests that present anti-poverty programs, aimed at the urban poor, do not serve the rural poor as well as programs designed specifically to serve rural people would.

## Population Studies Section

### Publications

**Current Population Reports, Population Characteristics, Rural and Farm Population: 1988** (Series P-20, No. 439), was published jointly by ERS and the Bureau of the Census in August. Judith Kalbacher (now with FRE), and Diana DeAre (Census Bureau) prepared the report, with the assistance of David McGranahan, Linda Swanson, Calvin Beale, and Margaret Butler from ERS and others from the Census Bureau. Among its findings is that rural population has increased faster than urban population since 1986. The 1988 farm population was not significantly different from the 1987 figure, which may reflect a leveling off in the long-term decline in farm residents. About 2.6% of the employed labor force worked in farm occupations in March, 1988; about 2.7% were employed in farming in 1980. Money income in 1987 was lower for households living on farms than for those in nonfarm areas. The report also contains further detail on the number and distribution of rural residents and their social and economic characteristics.

**Rural and Small Town America**, a monograph coauthored by Glenn Fuguitt (U. of Wisconsin), Calvin Beale, and David Brown (Cornell U., formerly ARED Associate Director), was published in September by the Russell Sage Foundation. The book is part of the Census Monograph series, cosponsored by the Census Bureau, the Social Science Research Council, and Russell Sage. The authors discuss a variety of trends and conditions in the rural and small town population (such as growth, composition, fertility, employment, income) and the ways in which this population does or does not differ materially from that in urban areas.

"Farm Population Can Be Defined Different Ways", in the *Agricultural Roundup* section of the September issue of *Farmline* discussed the definitions of farm population given in *Alternative Definitions of Farm People*, by Vera Banks, Margaret Butler, and Judith Kalbacher (now with FR&E). It points out that the differences are important because of the changing connection between the ties of farm residence and farmwork, and the ways in which government programs could change to meet these new realities.

### Papers Presented & Meetings Attended

Calvin Beale and Carolyn Rogers attended the Interagency Forum on Aging-Related Statistics in June. The meeting focused on longitudinal surveys and guidelines for standard questions in surveys.

Carolyn also attended the Joint Statistical Meetings of the American Statistical Association in Washington, August 7-8. Sessions of relevance to the Population Section's research included: statistics on the changing American family, issues on child care and maternity leave arrangements, post-census state poverty estimates, and the well-being of the aged.

### Briefings & Miscellaneous

Calvin Beale presented a statement on recent nonmetro population trends at a hearing convened by Sen. Max Baucus, Chairman of the Subcommittee on the Rural Economy and Family Farming of the Senate Committee on Small Business, in Livingston, MT. Sen. Conrad Burns of Montana also attended. The focus of the hearing was problems of rural telecommunications. Sen. Baucus and others fear that thinly settled States such as Montana will fall further behind in economic development and ability to retain their population if they do not obtain full access to fiber optic cables, digital switching, and other prerequisites to modern business communication. He has introduced bills providing additional support for modernization of rural telecommunications (to be handled by the Rural Electrification Administration) and for very small businesses (to be handled by the Small Business Administration). Those attending the meeting expressed general support for the modernization of rural telecommunications but had a mixed view of the need for greater outlays for small businesses.

Calvin also reviewed current economic conditions and demographic trends for rural leaders in training at the U. of California-Davis under the Rural Leadership Development Network program. This program provides a year and a half of course work and mentored field training to a number of persons with established records of rural community work on behalf of minorities, farm workers, or other rural low-income people.

Calvin presented a briefing on "Population Trends in Rural Areas" to Congressional and Hall of States staff from those regions of concern to the Northeast Midwest Institute. Representatives Goodling (R-Pa) and Durbin (D-Ill) cohosted the session. Dan Licher of Penn State U. discussed poverty and employment issues at the gathering.

Calvin reports that the Office of Management and Budget (OMB) has announced the designation of a new Metropolitan Statistical Area, Jamestown-Dunkirk, N.Y., which consists of Chataqua County, even though the county does not qualify as a metropolitan area under current standards and does not have an urbanized area of 50,000 or more. OMB accepted a pleading that Jamestown would have had an urbanized area years ago in 1970, when it was

larger, if different mapping had been done then. Calvin finds this action disquieting because it bypasses the Federal Advisory Committee in designating metropolitan areas.

He also passes along that the sampling pattern for the "long form" of the 1990 Census of Population and Housing is essentially set now. OMB has ordered the Census Bureau to restrict the number of housing units receiving the social and economic questions to 17.7 million, a level less than that required by population growth to maintain the 1980 sampling levels. As a result, the Bureau will use a variable sample with three different sampling ratios.

A 1:2 (50%) sample will be used in all counties and municipalities that have fewer than 2,500 inhabitants and on Indian Reservations or Alaskan Native areas with fewer than 2,500 Indian or Alaskan Native residents. This is similar to 1980. Because of the functioning character of subcounty civil governments in the 9 Northeastern States and Michigan, Wisconsin, and Minnesota, the 1:2 sample will also be used in all townships or townships equivalents of under 2,500 population in those States. A similar procedure was used in 1980, but in more States.

Other areas of the country that are not surveyed by mail, most of which are rural, will be sampled at a 1:6 (16.7%) rate as in 1980. In census tracts or "block numbering areas" with fewer than 2,000 housing units, the sampling ratio will also be 1:6. However, because of the restriction on total sample size, the sample will only be at a 1:8 (12.5%) level in tracts and block numbering areas that have 2,000 housing units or more. This sample rate for local area statistics is less than in any previous census. In general, though, Calvin believes that rural and small town areas have come off as well as could be expected.

#### Upcoming Events

Carolyn Rogers will be presenting a paper entitled, "Children in Nonmetro America: Economic Well-Being in a Family Context" at the "Family Economics" session of the USDA Outlook Conference in November.

### Rural Labor Markets Section

#### Research & Analysis

Leslie Whitener has begun a study of minimum wage workers in nonmetro areas using data from the *Current Population Survey*. This summer, Congress passed legislation to raise the minimum wage from \$3.35 to \$4.55 per hour by 1992. The legislation also contained a provision requiring the Secretary of Labor to study the impact of the minimum wage increase on rural areas and regions with high unemployment. The President vetoed the legislation, arguing for a lower minimum wage of \$4.25 and a lower training wage for workers with no previous job experience. The debate continues and minimum-wage legislation has already been reintroduced in Congress. Whitener will initially examine metro-nonmetro differences in the characteristics of

minimum wage workers and assess which workers and their families would be most affected by various proposed changes in the minimum wage.

#### Publications

A recently published book, *Research in Rural Sociology and Development*, edited by William Falk and Thomas Lyson, contains articles by Leslie Whitener and Molly Killian. Leslie's article, "The Agricultural Labor Market: A Conceptual Perspective", relates that, as the structure of U.S. agriculture has changed dramatically over the past forty years, so has the composition of the agricultural work force. Yet, while researchers are increasingly examining both rural and urban labor markets, relatively few studies have focused on the agricultural labor market (ALM). Furthermore, existing studies have been hindered by the lack of an adequate conceptual framework. In turn, conceptualization has suffered from problems of definition, measurement, and data inadequacies. Because of this, many of the conceptualization schemes advanced in the agricultural labor literature have not been tested to determine if they are useful for differentiating labor markets structure and outcomes. This article reviews various conceptual frameworks that have been used to describe the ALM and discusses its major components and possible levels of disaggregation. It also identifies several critical conceptual and empirical issues that need to be considered in future research.

The chapter, "Longitudinal Research on Local Labor Markets: The County Longitudinal Template", coauthored by Molly, Patrick Horan, and Peggy Hargis, develops a technique to facilitate the longitudinal study of local labor markets. These authors demonstrate the difficulties in coping with geographical changes in counties when attempting historical comparisons and provide a technique for incorporating these changes in the analysis.

In "Nonmetro Employment Update: Second Quarter 1989", in the September issue of *Agricultural Outlook*, Leslie relates that annual average unemployment in nonmetro areas has declined consistently since 1985 and, in 1988, nonmetro employment growth began to exceed that of metro areas. In general, rural areas are rapidly approaching prerecession employment levels. In second-quarter, 1989, nonmetro employment increased 3.9 percent. Also, employment growth now seems to reflect an expansion of the labor force as well as rehiring of the unemployed. One dark cloud in the employment picture is that some indicators suggest that economic growth is slowing and during downturns the nonmetro economy falls further and recovers more slowly.

Molly's review of *The Rural South in Crisis: Challenges for the Future* appeared in the June issue of *Rural Development Perspectives*.

"Off-Farm Jobs: Prospects Vary by Area" in the *Farmline Trends* section of the June issue of *Farmline* provided graphs of trends and some short analysis of off-farm employment based on data supplied by Leslie Whitener and Tim Parker.

Overall, the off-farm employment outlook is improving. One factor making farmers more competitive in securing off-farm work is that educational levels are rising more rapidly among farmers than among the labor force as a whole.

Paul Swaim has had two other papers coauthored with Michael Podgursky from their on-going research on worker displacement and unemployment accepted for publication. ("Do More-Educated Workers Fare Better Following Job Displacement?" was discussed in the F.O.R.A. section.)

"The Distributional Shape of Unemployment Duration: A Reconsideration", in the *Review of Economics and Statistics*, addresses the difficult issues of statistical inference raised by econometric analysis of unemployment duration data. In a 1987 work, Addison and Portugal use the extended generalized gamma (EGG) distribution to test the sensitivity of regression estimates to more restrictive distributional assumptions that have frequently been imposed by other studies. They contend that these restrictions are rejected by data on "unemployment" durations from the 1984 Displaced Worker Survey (DWS) and that imposing them creates large and variable biases in the estimated effects of the independent variables. Addison and Portugal also conclude that very different distributional forms are indicated for two subsamples of displaced workers.

Paul and Michael argue that the manner in which Addison and Portugal define their sample and correct for right-censored spells introduces biases and, therefore, that the DWS data do not support these conclusions. They find that coefficients for commonly-used distributional forms, such as the Weibull and lognormal turn out to be very similar to those for the less restrictive EGG, although the estimated percentiles for the distribution of spell lengths prove quite sensitive to functional form assumptions. The authors also present corrected estimates and discuss implications for the analysis of duration data in a concluding section.

"Advance Notice and Job Search: The Value of an Early Start", in the *Journal of Human Resources*, contends that recent studies of the effect of advance notice on jobless duration following displacement misspecify the relationship between these two variables by treating advance notice as a dummy regressor in conventional survival time models. Job search theory, however, suggests that the major impact of advance notice is not to alter the efficiency of search *after* job loss, but rather to allow workers to begin search *before* job loss. To assess this impact, the authors have developed a "sequential-regimes" job search model that allows search prior to displacement for workers with advance knowledge of layoff, with different search intensities before and after layoff. Using a pooled

data set from the 1984 and 1986 Displaced Worker Surveys, they have computed the model's maximum-likelihood estimates and use them to simulate the effect of various levels of advance knowledge on jobless duration. Their results indicate that relatively modest advance knowledge significantly shortens jobless duration for most labor force groups.

Paul also presented preliminary results of his research in academic seminars at Georgetown U. and at the Northeast Regional Economics Association meetings in Boston, during May, and at the Organization for Economic Cooperation and Development in Paris and at MIT, during September.

#### *Papers Presented & Meetings Attended*

The following papers were presented at the annual meeting of the Rural Sociological Society in Seattle, WA, in August:

"Improving Rural Jobs or Improving Rural Workers? Strategies for Reducing the Rural/Urban Earnings Gap", by **Molly Killian**, examines two approaches to reducing the long-standing earnings differential between rural and urban areas. One approach, drawn from the conventional individualistic models of earnings, views the rural/urban gap as the result of individual variations in the productivity-related characteristics of rural and urban workers. According to this perspective, the most promising methods for reducing that gap include rural development programs to improve the human capital characteristics of rural workers. The second approach, drawn from a structural model of earnings, views the rural/urban earnings gap as the result of spatial variations in the kinds of job opportunities available to



*Sowing the seeds of a new skill.*

workers in rural and urban local labor markets. According to this perspective, the most promising methods for reducing the rural/urban earnings gap include industrial development strategies to alter the current spatial division of labor.

In her paper, Molly assesses the empirical support for these two approaches by performing a two-stage, multi-level analysis of data from the 1980 Public Use Micro Sample-D (PUMS-D). The results indicate that policies designed to enhance the human capital characteristics of rural workers will not be sufficient to eliminate the earnings differential between rural and urban areas, unless they are combined with development initiatives to improve the quality of employment opportunities within the boundaries of rural local labor markets.

"Factors Affecting Multiple Job-Holding Among Nonmetro Families", by Leslie Whitener and Janet Bokemeier (U. of Kentucky), examines how metro and nonmetro families are adopting a variety of family employment strategies in response to changes in the economic climate in contemporary America. Using data from the May, 1985 *Current Population Survey*, Leslie and Janet examine different types of employment strategies, including moonlighting, used by five groups of nonmetro married couples based on their employment status. It also employs bivariate and multivariate analytical techniques to identify the motivational and opportunity factors that affect which strategies couples choose. Among the study's findings, work schedules that are flexible, compressed into fewer days, or occur in evening/night shifts, and economic motivational factors associated with family life cycle stages facilitate a two-earner strategy. In contrast, opportunity factors such as living or working on a farm, being self-employed, and working in an occupation that allows flexible scheduling and has transferable skills promote moonlighting strategies.

Another important finding is that the level of multiple jobholding among nonmetro couples is higher than among metro couples, a result that may be due to the generally lower economic status of nonmetro workers. In a situation of economic deprivation, marginally-employed families may be reluctant to leave jobs that provide some financial stability in search of better-paying employment, despite an economic environment that offers limited job opportunities.

"Growth and Stability of Rural Counties", by Molly Killian, David Sears and John Redman (RBG). (See title under **Government and Development Policy Section** of the RBG Branch).

"Determinants of Nonmetro Employment Growth: 1969-86", by Tim Parker, provided insights on the differences in employment growth between metro and nonmetro areas.

"New Skills in the New Economy: Substantive and Methodological Issues", by Ruy Teixeira, was presented at the American Sociological Association convention in San Francisco. It discusses the possible emergence of new types of skills in today's economy and how such "new skills" can be identified and measured.

## NATIONAL ECONOMY AND HISTORY BRANCH

### View from the Branch

by Tom Hady

Everyone else may go to the beach in the summer, but in ERS we're so dedicated we do our workplans for next year! There are several activities to discuss in the branch.

In the situation and outlook area, we plan to improve our database and to more closely integrate the short-term forecasting work with the departmental baseline process. We'll also focus on models of the interaction between the general and agricultural economies, with the objective of better integrating the macro-forecasting process with the overall agricultural outlook. We plan to add more sector detail to the computable general equilibrium (CGE) models developed over the last two years, to explore alternative approaches to CGE modelling, and to use these models to analyze the impacts of major farm and trade policy changes on the farm and rural economies.

The Commerce Department is scheduled to release the 1982 input-output tables and we will update the base of our input-output models when those data become available. We also plan added efforts to develop regional I/O capabilities. The branch will continue time-series analyses of relationships between commodity prices and the general economy. We have identified relationships between the national economy and the rural, nonfarm economy as an important area to expand, and we expect two new staff members to help with that expansion.

Commemorating the 100th anniversary of the 1890 Universities, Agricultural and Rural History staff are completing a history of agriculture and the 1890 system under cooperative agreement. We also expect to cosponsor a conference on the topic. We will complete and publish our administrative history of USDA since 1961, and update several related publications. As resources become available from that project, we expect to begin two major policy histories: a comprehensive history of rural development policies and a study of US/EC agricultural trade relations.

"These are exciting times. You gotta be there!"

### Branch Activities & News

Ralph Monaco, James Malley, and Ken Hanson presented a seminar on the "Macroeconomic Outlook Through Year 2000 (With Applications for Agriculture)" at ERS on Friday, October 13. Their presentation described in depth trend projections to the year 2000 for the U.S. and four developed nations (Canada, Japan, W. Germany, and U.K.) based on a "soft landing" set of assumptions. It also discussed five alternative projections based on contrasting assumptions. Their results will be discussed in the next issue.

## Agricultural and Rural History Section

### Publications

*A Short History of U.S. Agricultural Trade Negotiations* (AGES 89-23), by **Jane Porter** and **Douglas Bowers**, was published in August. The recent U.S. proposal to eliminate domestic farm subsidies worldwide represents a significant break from past policies. Trade liberalization has been a U.S. goal since the Reciprocal Trade Agreements Act of 1934, but, until recently, the U.S. and many other countries have acted to preserve their own farm subsidies. In the 1980's, several factors have led to reassessments of domestic and export subsidies, which has created a climate more favorable to eliminating subsidies.

*The Agricultural History Newsletter*, a monthly publication edited by **Vivian Whitehead**, came into existence in May and will be sent free upon request to anyone interested in receiving a copy. It is intended to keep other researchers informed on what is being done in the field of agricultural history. Vivian is seeking input on research activities, publications, meetings, and anything else of interest to colleagues. She is located in room 928 in the ERS building or can be reached at (202) 786-1787.

### Papers Presented & Meetings Attended

The Agricultural History Society's held a symposium on "The United States Department of Agriculture in Historical Perspective" at Iowa State U., June 15-18. This year marks the 100th anniversary of USDA as a cabinet Department. The conference was the largest on USDA history ever held, with 30 papers covering the last 100 years of the Department. The proceedings will be published in a special issue of *Agricultural History*.

Three members of the section presented papers:

"Public Policy and USDA Science, 1897-1913", by **Vivian Wiser**, discussed James Wilson's tenure as Secretary of Agriculture, 1897-1913, a period of great expansion, especially in scientific and regulatory work. During the sixteen years he held the position, the longest for any cabinet officer, the number of employees increased from 2,444 to 14,478 and funding grew from \$3.6 million to \$25.4 million. Wilson's service in the Iowa legislature and the U.S. House gave him access to political circles, such as his close ties with the White House in both the McKinley and the Roosevelt administrations, not otherwise available. A key to Wilson's success was the quality of his leadership choices. Although the Secretary made the final decisions, Wilson's appointees developed their own programs. For most of his tenure, the principal areas of concern in the scientific and related bureaus were the enforcement of the Food and Drugs Act by Harvey Wiley and the administration of the Forest Service by Gifford Peincot. During the later years of Wilson's direction, he gave more attention to non-scientific functions and the work of his solicitor, George McCabe.

"The Economic Research Service, 1961-1977", by **Doug**

**Bowers**, related that ERS was created in 1961 as a reconstitution of the Bureau of Agricultural Economics, which had been abolished in 1953. The BAE had become unpopular in Congress and other parts of USDA because of its central role in policy-making and planning. The Bureau had also conducted a number of controversial social studies. When ERS was formed, it was carefully moved an additional step from the Office of the Secretary to help isolate it from political pressure. Recombining economic research again in one agency gave ERS the flexibility to respond to rapidly changing research needs in the 1960's and 1970's despite steady or falling personnel ceilings. Areas such as rural development, the environment, and foreign trade received new emphasis while some older ones, like marketing research, declined.

"Drafted into the War on Poverty: USDA Food and Nutrition Programs, 1961-1969" by **Norwood Kerr**, noted that USDA food programs were greatly expanded with the advent of the Kennedy administration in 1961. When President Johnson launched his War on Poverty in 1964, food programs played an important part. The food stamp, school lunch, and school milk programs all benefited from increased spending, but the Vietnam War made their further expansion difficult. By 1969, though, food programs made up a quarter of the Department's budget, clearly indicating that USDA's mission had expanded well beyond farmers.

**Jane Porter** also attended the Iowa State U. meetings.

**Joel Schor** and **Norwood Kerr** attended a meeting of the Centennial Study Advisory committee at NASULGC to discuss their projected history of the 1890 colleges. The study, being conducted by James V. Smith of Virginia State University, covers the general history of the 1890 schools.

**Joel** delivered "Forty Acres and a Mule: Black Americans and the Quest for Land Ownership" at the Museum of American History as part of a seminar sponsored by the Smithsonian Associates. Twice since the Civil War the Federal Government has tried to assist Black Americans to purchase farmland and other necessary inputs. The first intervention occurred during the Reconstruction, after abolitionistshopes raised hopes for "forty acres and a mule", when a limited amount of land was distributed under the direction of the Freedman's Bureau and Reconstruction legislatures. Yet, this was not enough to create the dream of Booker T. Washington and other reform-minded Americans of a free and independent Black yeomanry.

The second intervention occurred during the Great Depression. Both White and Black farmers were moved to more fertile lands by the Resettlement Administration and the Farm Security Administration. Some benefited from this effort, but it too was inadequate, as many farmers took better-paying work in the defense industries and many more were untouched by the New Deal programs. Since World War II, the outmigration trend has continued among all farmers, but minority farmers have been disappearing at a faster rate. Some are now concerned that Black agricultural professionals too may become a vanishing breed.

Joel also attended a breakfast meeting on the release of genetically-altered organisms in the environment sponsored by the Montgomery County Council on High Technology, in Gaithersburg, MD, July 20. The speaker, Edward Korwek, discussed the complexity of the environmental release issue and the difficulty of defining terms relating to it.

**Doug Bowers** attended the annual meeting of the Society for Historians of the Early American Republic, July 20-22 in Charlottesville, VA. Papers presented covered a wide variety of topics relating to the first 60 years of U.S. history, including the early development of the American economy.

#### *Briefings & Miscellaneous*

**Jane Porter** prepared a briefing on the historical development of the World Food Budget for former Secretary of Agriculture, Orville Freeman. Before World War II, no worldwide data on food supply and demand existed. During World War II, British and Americans working in the Combined Food Board coordinated food availabilities and assigned priorities for the distribution of food to the allied nations and their dependents. After World War II, food supply and requirements figures were developed for the occupied territories as well. But during the 1950's and early 1960's, foods, especially grains, appeared to be in surplus and the U.S. was primarily concerned with means of disposing of U.S. surpluses. The USDA began research on the overall adequacy of world food supplies in 1961. This led to the publication of a series of World Food budget estimates and forecasts. In the 1970's, USDA developed the GOL (Grain Oil Livestock) model for forecasting World Food Supplies and requirements based on needs. Partly as a result of the death of the project leader, Anthony Rojko, and partly as a result of a change in administration, this model was abandoned in favor of building interfaces with models elsewhere. The ERS has continued to forecast world food needs and availabilities, but the future of this work is in doubt due to lack of appropriations.

**Jane, Doug Bowers, and Lowell Dyson** also put together a paper for Leo Mayer, Acting Assistant Secretary for Economics on "The Evolution of USDA Farm Policies, 1930-1989," which traces changing farm policy goals. The paper analyzed the aims of modern agricultural programs as they have evolved since the early 1930's. The authors discussed various objectives such as adequate farm income, surplus management, conservation and environment, price stability, and humanitarian endeavors, as well as the longstanding debate over voluntary versus mandatory programs.

**Dennis Roth** gave an ERS seminar June 14 on "The Spotted Owl and the Oregon Wilderness Act of 1984," which analyzed the forces that have gone into making wilderness policy.

**Joel Schor** discussed his work, *Evolution and Development of Biotechnology: A Revolutionary Force in American Agriculture*, on May 11 with Alvin Young of the Office of Agricultural Biotechnology. He also conferred in April on the same subject with CIA employees at a meeting of ERS

and Organization for International Cooperation and Development representatives in Rosslyn, VA.

**Lowell Dyson** gave a talk on June 14 about his two-month stay in China and the evolution of that country's agriculture. Lowell was a Visiting Scholar at Jilin U., in Changchun, People's Republic of China, this spring. While there, he worked with the Departments of History, Economics, Politics, and the School of Law. He conferred with the Institute of World History and the Institute of American Studies at Nankai U. and with the Ministry of Agriculture in Jilin Province. During his stay, Lowell gave three papers: "The Development of American Farm Programs" to the Research Centre for Rural Development of the State Council; "American Farmers Organizations: History and Programs," to the Institute for Rural Development of the Chinese Academy of Social Sciences in Beijing; and "Institutionalized Corruption" to a national symposium on corruption in Changchun. Lowell was in Tiananmen Square the evening of the initial student occupation and on several other occasions. He closely observed the rise, flourishing, and fall of the Democracy Movement. He and his wife, a Fulbright Professor of Law, left Beijing, June 7, three days after what Lowell terms "the massacre" began.

Lowell was also interviewed by Tin Mya of the Voice of America for a VOA broadcast in Burma. Among the subjects discussed were export programs, the regional diversity of agricultural production, and the historical background of American farming.

### **National Aggregate Analysis Section**

#### *Publications*

"Drought Likely to Affect Egg Prices for Two Years," by **Ronald Babula** and **David Bessler** (Texas A&M U.), was published in the July issue of *Agricultural Outlook*. The article describes the vector autoregression techniques that the authors employed to ascertain the possible impact on egg prices from last summer's drought-induced rise in corn prices. The model's forecast of cumulative egg price increases closely matched the actual price movements over a ten-month period. The model's accuracy lends credence to its prediction that effects on egg prices at both the farm and retail level may last through early-1990.

"Farmgate, Processor, and Consumer Price Transmissions in the Wheat Sector", by **Ronald Babula** and **David Bessler**, was published in the *The Journal of Agricultural Economics Research*, Summer, 1989. As part of their research on price transmission mechanisms between the crop, livestock and poultry, and consumer sectors, the authors use vector autoregression (VAR) techniques to simulate the effects of a presumably drought-induced increase in 1988 farmgate wheat price on processor and consumer prices. Results suggest that an increase in farm wheat prices generates an immediate increase in processor prices that remains significant for almost a year. Wheat-related consumer price increases are more gradual and less acute, peaking about 8

months after the farmgate rise; however, they persist longer than the processor price rises, lasting around 22 months.

#### *Papers Presented & Meetings Attended*

At the Western Agricultural Economic Association meetings, in Coeur d'Alene, ID, July 8-12, the following papers were presented:

"The Dynamics of Farm and Non-Farm Price Transmissions: The Case of Cotton", by **Ronald Babula** and **David Bessler**, which describes the use of vector autoregression techniques to estimate farm cotton, industrial cotton, cotton fabric, and general apparel prices shocked with a farm price decline. Results show how the farm price declines pulsate through the cotton-related nonfarm economy. Results demonstrate reaction times, response durations, and patterns of the non-farm price responses.

"Sources of Structural Change in U.S. Agriculture, 1972-1982: Implications for Agriculture in the Western United States", by **Chinkook Lee**, **Darryl Wills**, and **Agapi Somwaru** (Data Services Center). In this paper, the authors use a 47 sector input-output model to analyze the changing nature of U. S. agriculture. The analysis concludes that most changes in sector output during 1972-1982 were due to changes in the level and composition of final demands rather than changes in technical coefficients.

The papers will be published in *Papers of the 1989 Annual Meeting, Western Agricultural Economics Association*, Coeur d'Alene, ID, July 9-12, 1989.

At the American Agricultural Economic Association meetings in Baton Rouge, LA, July 30-Aug. 2, the following papers were presented:

"Factor Intensities and the Changing Commodity Composition of U.S. Agricultural Trade", by **Gerald Schluter**, **Chinkook Lee**, and **Darryl Wills**, discussed the techniques used to estimate factor intensities and the commodity composition of the U.S. agricultural exports. Findings show that factor endowments play a prominent role in U.S. agricultural exports to countries that are in the developing stages of economic growth, while product differentiation and consumer demand play an important role in agricultural exports to countries with income levels similar to the United States.

"Effects of Altering the Structure of U.S. Trade", by **Ken Hanson**, **Lon Casel** (ERS-Resources for the Future), and **Sherman Robinson** (U. of California-Berkeley), which addresses two structural adjustment issues the United States faces as a global trading partner. One is the changing relative importance of other countries as U.S. trading partners. The other is the restructuring of production in response to global changes in factor endowments. U.S. foreign trade will have to adjust to these two changes in the global economy. A resource constrained Social Accounting Matrix (SAM) multiplier is used to analyze the effects of changes in the structure of U.S. foreign trade on the structure of production in the U.S. economy.

"Sources of Structural Change in U.S. Agriculture, 1972-1982", by **Chinkook Lee**, **Darryl Wills**, and **Agapi Somwaru**.



*A beautiful fall day in a rural town.*

(For discussion, see above.) The paper was also presented at the Joint National Meetings of the Operations Research Society of America, Vancouver, British Columbia, May 8-10.

"Adjustment in the 1990s: A CGE Analysis of Alternative Trade Strategies", by **Ken Hanson**, Sherman Robinson, and Stephen Tokarick (now ITC), was presented at the Fourth International Institute for Applied Systems Analysis (IIASA) Task Force Meeting on "Applied General Equilibrium Modeling" in Laxenburg, Austria, August 23-25. The paper led off the meeting attended by economic modelers from 16 nations who discussed the application of general equilibrium modeling to several areas.

"Growth and Change in the Structure of the U.S. Agricultural Economy, 1972-1982: An Input-Output Perspective", by **Chinkook Lee**, **Darryl Wills**, and **Agapi Somwaru**, was presented by Chin at the 9th International Conference on Input-Output Techniques, Keszthely, Hungary, September 4-9. This is the first time that a paper on the U.S. agricultural economy in an input-output perspective has been presented at this international conference. Some papers from the conference are available; contact Chin or Linda Felton at (202) 786-1785.

**Gerald Schluter** chaired a session, "Economic Modeling I" at the American Statistical Association meetings in Washington, August 6-10. Jerry also attended the National Bureau of Economic Research "Applied General Equilibrium Conference" in San Diego, CA, September 8-9. A set of 14 papers given at the conference covered most of the recent theoretical, computational, and empirical developments in CGE models. The papers will likely be published by Cambridge Press.

#### Briefings & Miscellaneous

Anna Nagurney, Associate Professor at the School of Management, U. of Massachusetts-Amherst, visited the section on June 23. She has developed computer software for balancing Social Accounting Matrices (SAM's), which are based on data, often inconsistent, from a diversity of sources. Potentially, this technique could be used for updating the SAM data base used in NAA's Computable General Equilibrium Model. NAA has provided her with examples of SAMs used in the section, which she will use to refine her technique. Future interactions may lead to a practical application of her work.

Participants in The Economywide Modeling Group, a government wide, interagency workshop for CGE modeling, met July 6 to discuss plans for the next year. The group hopes to enhance its overall modeling efforts by coordinating data base management and sharing modeling experience. Starting in September, the group will hold a series of workshop seminars, coordinated by Stephen Tokarick (formerly NAA) and Ken Reinert of the International Trade Commission. Other participants included **Ken Hanson**, Morris Morkre of FTC, and Clint Shiells of ILAB (Dept. of Labor). David Roland-Holst (Mills College), a former student of Sherman Robinson, will be serving during next

year as a visiting consultant to ITC for their economywide modeling of the effects of US imports and expects to be an active member of the group. Individuals interested in participating or attending the seminars may contact **Ken Hanson** at (202) 786-1785.

#### Upcoming Events:

At the Southern Economic Association Meetings in Orlando, FL, November 19-21, 1989, **Ronald Babula** and Gregory Wozniak, will present a selected paper, "Inter-regional Impacts of Declines in U.S. Manufacturing Activity."

### Macroeconomics Section

#### Research & Analysis

**Dave Torgerson** is examining the impact of unexpected changes in the overall inflation rate on metro and non-metro unemployment rates. One major hypothesis to be tested is whether the unemployment response to an unexpected change in the overall inflation rate differs across metro and nonmetro areas within a state. The possibility of developing a macroeconomic-driven forecast of regional metro and nonmetro unemployment rates is being examined.

#### Publications

A staff report, *A Simple Empirical Model of Macroeconomic Effects on Agriculture: An Asset Market Approach* (AGES 89-21), by **John Kitchen**, was published in May. The asset market approach specifies a direct relationship between flexible prices and the growth of the money supply in excess of real money demand. In this paper, John describes a model he has developed which uses the asset market approach to estimate the impacts of macroeconomic developments on aggregate measures of agricultural prices, revenues, and land values. Its more aggregate format provides a different view of agricultural price behavior and allows comparisons with the results of more traditional commodity-price models. The report presents the model's specification and coefficient estimates and the results for several alternative simulations. Although it has limitations, the model's simplicity facilitates its use for conducting various simulations. Furthermore, although its intended use is to examine the effects of macroeconomic actions on agriculture, it can be used, with careful manipulation, to analyze the effects a large range of macroeconomic shocks.

"Interest Rates and Commodity Prices", by **John Kitchen** and Gordon Rausser (U. of California-Berkeley), was published in the Spring, 1989 issue of *The Journal of Agricultural Economics Research*. The theory of storage and arbitrage suggests that far-near commodity price spreads fully incorporate nominal interest costs or, alternately, that they are commodity specific and unrelated to the real interest rate. Recently, some analysts have suggested that the "commodity own rate", an implicit rate of return to commodities, is positively related to the real interest rate, so

that the far-near price spread does not completely incorporate the full nominal interest cost. This study examines views and empirical evidence on interest rate-commodity price relationships, as well as the potential role of nonneutral monetary impacts. It concludes that the empirical evidence does not support the hypothesis of a close relationship between commodity own rates and the real interest rate.

"Analyzing Alternative Economic Policies with a Small Multi-Country Macroeconomic Model", by **Jim Malley**, has been accepted by the *Journal of Mathematical and Computer Modelling*.

"Mexval: A Simple Regression Diagnostic", by **Ralph Monaco**, has been accepted for publication by the *Journal of Business and Economic Forecasting Systems*. Mexval is a simple measure of the importance of a variable in a regression relationship. It measures how much the standard error of the predicted regression values would rise if the variable were left out of the estimated equation.

**Ralph Monaco**'s article, "Second-Half Inflation Could Be Lower", in the June issue of *Agricultural Outlook*, commented that the Federal Reserve's tightening of the money supply had been effective and, with further tightening unlikely, interest rates should fall. Rises in food and oil prices during the first half of the year would likely level off in the second half. These two developments, along with a growth of 6.5-7.5 percent in domestic personal income, suggested a general economic environment that would be mildly supportive of U.S. agriculture. In "Two Scenarios Are Possible" in the September issue, Ralph and **Elizabeth Mack** indicate that the successful "cooling" of an "overheated economy" had led to uncertainty about the immediate future of the general economy. Some analysts think that the Federal Reserve's easing of monetary policy in June and July has prevented a slowdown becoming a recession. Other analysts predict a recession in the next few months, ending an 80-month-long expansion. Ralph and Beth present both cases in their article. With respect to agriculture, they state that the general economic environment will remain mildly supportive, no matter which of the two outlooks materialize.

**John Kitchen**'s work with Peter DeBraal of the Resource and Technology Division (RTD) has resulted in a staff paper, *Foreign Investment in U.S. Cropland: Some Evidence on the Role of Exchange Rates, Interest Rates, and Returns on Cropland*, that will be published in October.

#### *Papers Presented & Meetings Attended*

At the American Agricultural Economic Association meetings in Baton Rouge, LA., July 30-August 2, the following were presented:

"Commodity Prices in Monetary Policy: The Potential Information Role of Agricultural Commodity Prices", a paper co-authored by **John Kitchen** and Roger Conway and Michael LeBlanc (Resource and Technology Division), examines the benefits and pitfalls of using commodity price

movements, which may contain information about future inflation trends, to guide monetary policy. The use of agricultural prices in such a way, however, could bring agricultural and monetary policy objectives into direct opposition, and would effectively make the Federal Reserve a key agricultural policymaker. Using two different approaches, the paper presents empirical evidence on the relationships between commodity prices, particularly agricultural commodity prices, and relevant macroeconomic variables. The paper was presented in a symposium moderated by Governor Wayne Angell of the Federal Reserve Board of Governors. John also presented a Situation and Outlook Briefing on "Can Agricultural Commodity Prices Be Used as a Leading Indicator for Monetary Policy?" at ERS, in August.

"Can Soviet Feedgrain Imports Be Forecasted?", a poster prepared by **Mark Denbaly** with Aniss Bahreinian (West Virginia State College), examines the assumption that the Soviet Union targets consumption, thereby fixing it, that is often used in studies analyzing Soviet grain importing behavior. In his model of Soviet feedgrain consumption, which forecasts Soviet imports accurately, Mark finds that consumption is not fixed.

**James Malley** and David Bell (U. of Glasgow) presented a paper, "A Small Global Macroeconomic (SGM) Model" to the Economic and Social Research Council of the Macroeconomic Modelling Bureau, U. of Warwick, England. The paper described the macroeconomic model built over the last 18 months in ERS to improve the capacity for medium- and long-term macroeconomic forecasting and staff analysis. Jim discussed different aspects of the same model when he presented a paper, "The Specification, Estimation and Simulation of a Small Global Macroeconomic Model" to the Seventh International Conference on Mathematical and Computer Modeling, in Chicago.

Jim also presented a seminar about the simulation properties of the SGM to the Macroeconomic Modeling Group at the Bureau of Economic Analysis.

**John Kitchen** made a presentation based on his staff report, *A Simple Empirical Model of Macroeconomic Effects on Agriculture: An Asset Market Approach*, to the Federal Reserve System Committee on Agriculture and Rural Development at the Federal Reserve Bank of Richmond in May. **Mark Denbaly** also attended the meeting.

**Paul A. Sundell** presented a paper on "Interest Rate Forecasting" to the members of the faculty of Finance and Economics of the Pennsylvania State U. The paper presented a model that Paul has developed to better forecast the federal funds rate, a key indicator of monetary policy. The model provides superior in-sample and out-of-sample forecasts when compared to other models. Much of its improved performance is attributable to the inclusion of variables related to the international trade balance, exchange rates, domestic default risk in the banking system, and shifts over-time in the Federal Reserve's vigor in pursuing countercyclical stabilization policy.

John Kitchen and Mark Denbaly briefed Leo Mayer, Acting Assistant Secretary for Economics, on recent developments in the junk bond market and the savings and loan crisis and its possible effects on agriculture.

The Macroeconomics Section was involved with the Second Annual Federal Forecasters Conference held in Washington in early September. Ralph Monaco, served on the organizing committee and participated in a panel discussion "Forecasting in Federal Agencies: How Long is the Chain?", which highlighted the inter-relationships between various Federal forecasts. Jim Malley presented "The Development of a Small Multicountry Macroeconomic Model", describing the SGM and its solution software. Dave Torgerson and Elizabeth Mack also attended the conference.

## ARED PEOPLE

### Farm Sector Financial Analysis Branch

Ken Erickson began working as an agricultural economist in the Farm Financial Analysis Section in February, 1985.



Ken Erickson

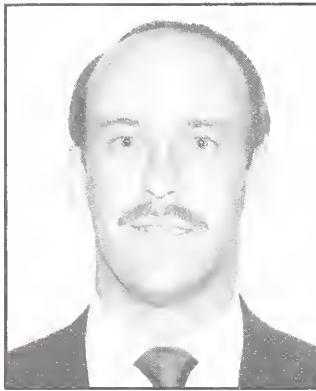
He develops estimates of the farm sector balance sheet and other farm financial indicators. He is completing a study comparing rates of return in the farm and nonfarm sectors after adjustment for differences in income estimation and asset valuation methods. Ken and his colleagues are also using data from the Farm Costs and Returns Survey (FCRS), the Census of Agriculture, and other recent surveys to improve the quality of farm financial data. He says that he enjoys his colleagues' professionalism and humor.

Ken grew up in Western Springs, IL, enjoying sports and outdoor activities - especially summer fishing vacations in northwestern Wisconsin. He graduated from St. Olaf College, Northfield, MN, taught at Clarkson College of Technology, and served briefly in the Peace Corps in Western Samoa. His interests in the outdoors and economics led him to major in natural resources economics at the U. of Wisconsin. Working with Dr. John Strasma, Ken helped the State develop a new progressive tax on mining profits. In 1978, he left Wisconsin for Washington, where he has worked with the Department of Energy, the Wilderness Society, and the Senate Budget Committee.

Ken lives in Alexandria, VA. He serves as a deacon at his church in Bethesda, and has participated in several short-term missions trips to Kenya and the Dominican Republic.

### Finance and Tax Branch

Steve Koenig has been with the Agricultural Finance Section since December, 1986. His research focuses on farm credit policy, capital markets, and farm financial institutions, particularly the Farmers Home Administration.



Steve Koenig

Steve hails from Michigan, where he was actively involved in his family's corn and soybean farms. Steve received his B.S. in Crop and Soil Science from Michigan State U. in 1980. After graduation, a new-found interest in finance lead to a position as an agricultural loan officer for a Michigan Production Credit Association. Eventually, he

wandered back to college where he met his wife Tammie.

At Michigan State U., he also managed to earn an M.S. in Agricultural Economics in 1986.

Steve and Tammie live in Falls Church, VA and spend spare moments (Tammie works by day and attends M.B.A. classes by night) enjoying the Washington area, traveling, and skiing during the brief Washington winters.

### Farm and Rural Economy Branch

Vic Oliveira has worked as an economist for ERS since January, 1981, when he began in the Rural Labor Markets Section of the Human Resources Branch. In 1986, he transferred to his current position in the Agricultural Labor and Household Well-Being Section, where he has been conducting research related to the level and trends in farm labor,



Vic Oliveira

including farm operators, hired farmworkers, and unpaid farmworkers. Vic is currently analyzing the nonfarm employment of farmworkers. Using data from the 1987 Agricultural

Work Force Survey, he is examining the extent of nonfarmwork among farmworkers, the characteristics of the nonfarm work they perform, and the factors affecting the probability of a farmworker doing nonfarmwork.

Vic was born and raised in Massachusetts. He received a B.S. in Agricultural Economics from the U. of Connecticut and a M.S. in Agricultural Economics from Penn State U. He resides in Arlington, VA, where he and his wife Sandy are awaiting the birth of their first child.

## Rural Business and Government Branch

Shirley Porterfield joined the Rural Business and Industry Section as an agricultural economist in May, 1988. Her research has focused on the role of the services-producing sector in the rural economy.



Shirley Porterfield

Recently she has been hard at work trying to get some publications out of her dissertation, a survey of services-producing firms located in the upper midwest. Additional projects include an analysis of the impact of structural economic change on wages in nonmetropolitan counties, identification of tourism dependent counties, and an

analysis of the relationship between telecommunications infrastructure and rural economic development.

Shirley is one of the few people in her branch to have grown up in a rural area. From fifth through twelfth grades, she lived in Lake City, CA (population approximately 85), riding the bus to school in Cedarville, 10 miles away. Practical rural work experience was gained during the summer months, first changing sprinkler lines, and then cutting alfalfa hay. Shirley's love of travel and new places has led her across the country. This is reflected in her academic degrees. She holds a Ph.D from the U. of Wisconsin-Madison, a M.S. from the U. of Arizona, and a B.S. degree from Oregon State U.

The Cleveland Park neighborhood of Washington, is now home, where Shirley lives with her husband, Tim, and their two cats. She enjoys the short commute and easy access to the District's cultural and gastronomic delights.

## Human Resources Branch

Margaret Butler is an economist in the Population Section. Before coming to the Population Section as a



Margaret Butler

Statistical Assistant, in 1980, she worked as an Economic Assistant in the Office of the Director. Her current research focuses on new ways of identifying farm people and on indicators of social and economic well-being in the U. S.

Margaret began working part-time in the Area Analysis Branch of the former Economic Development Division in

1972 while still a student in high school. After graduating, Margaret began working full-time and entered the ERS-sponsored College Study Program and the Upward Mobility Program. She obtained a B.S. in Economics from the U. of Maryland and is now taking graduate courses in demography at Georgetown U.

Margaret is originally from Hughesville, MD (a tobacco growing area in southern Charles County) but grew up in the Washington metropolitan area. She is married and lives in Forestville, MD. Most of her free time is spent doing volunteer work for Catholic organizations. Other interests include reading, bowling, and working jigsaw puzzles.

## National Economy and History Branch

Mark Denbaly joined ERS in 1984 to investigate the nature of various ways by which events in the macroeconomy influence agriculture. He now heads up the Macro-

Agricultural Linkage project in the Macroeconomics Section. His work on connections between rates of interest and exchange rates, and the overshooting phenomenon has been published in several journals.



Mark Denbaly

Presently, he is embarking on two ambitious projects. One attempts to consolidate the known macrolinkages into a simple model to measure the macroeconomic effects on agriculture in a general, rather than partial, fashion. The other venture is estimating equilibrium prices of agricultural commodities. Mark is book review editor for *Rural Development Perspectives* and serves on its editorial board. He also served on the core committee for the ERS Competitiveness Project during 1985-86.

Mark received his M.S. in Economics from Southern Illinois U. in 1979, and his Ph.D. from Iowa State U. in 1984. Before joining ERS, he worked as an economist for the Center for Agriculture and Rural Development, and the World Food Institute. Before that, he drove a yellow cab in Chicago to finance his education.

Mark and his wife, Laura, live in Fairfax County, VA. He enjoys the 24-mile round-trip biking commute to work when the weather allows and loves to play squash. Most of all, he thrives on camping, traveling, and culture shocks.

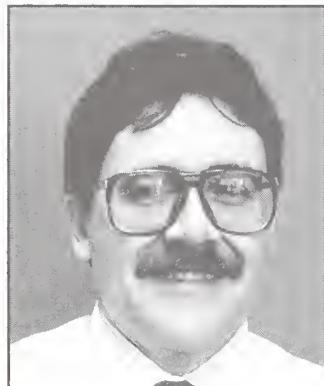
## PERSONNEL

### Awards & Recognition

**Sara Mazie, David McGranahan, Norman Reid, Herman Bluestone, and David Brown** (Cornell U., formerly Associate Director and chair of publication steering committee) received an honorable mention in the Quality of Communications category from the American Agricultural Economics Association (AAEA) Awards program for *Rural Economic Development in the 1980's: Prospects for the Future* (RDRR 69). The publication, which was issued in September, 1988, is a compendium of research on rural economic conditions written or coauthored by 18 ARED researchers and 8 other authors. The letter informing the division of the award stated: "Selection as an honorable mention is a significant recognition by the profession and serves as evidence of these five individuals' contribution to our profession's activities."

### Farm Sector Financial Analysis Branch

**Robert Pelly** joined the Farm Cost and Returns Section in July. Currently, his work day is occupied with estimating costs of production with the FEDS model and generating articles and publications from his recently completed dissertation.



Robert Pelly

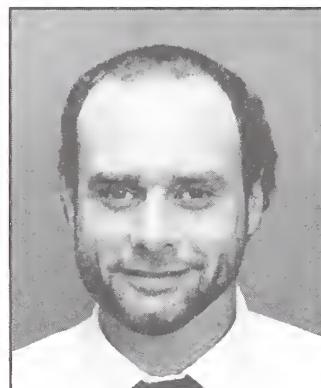
of the dairy and crop operation. The management experience acquired while involved with the day-to-day operation of a 150-cow registered Holstein herd, corn, hay, and tobacco farming enterprise has proven to be invaluable.

However, the unstable macroeconomic environment of the late 70's and early 80's made it apparent to Bob that further knowledge of financial and marketing concepts were required to proficiently manage a farming operation and weather the farm financial crisis of the early 80s. So he entered the doctoral program in agricultural economics at Ohio State U. [Editor's note: Go Buckeyes! Oops, sorry, I'm an alumnus myself.] in January, 1985 and was awarded a Ph.D. in the summer of 1989.

Bob and his wife Marlene have been married for seven years and have one son, Duncan, 5. Since Marlene and

Duncan are occupied with selling their home in Columbus, the transition from graduate school to the D.C. area has been difficult. Once the move is complete, he feels that he and his family will enjoy life without graduate school and the advantages afforded by the D.C. area.

**William McBride** joined the Farm Cost and Returns Section in July after completing a Ph.D. at the U. of Tennessee. His research interests are in the areas of farm management and production economics, and he has research experience in modeling/simulation of livestock and crop-livestock farms. He is currently engaged in estimating farm costs of production and will be involved with the REP FARM modeling project.



William McBride

Bill was raised on a crop-livestock farm in west-central Indiana, where he gained experience in the production of corn, soybeans, hogs and cattle. He earned a B.S. in Farm and Business Management from Purdue U. He then moved south and attended the U. of Tennessee, where he earned both his M.S. and Ph.D. degrees.

After two months of temporary residence, Bill is settling into his own place in the Bethesda, MD area. Although uncertain at first, he is beginning to enjoy life in the D.C. and Maryland areas. His hobbies include weight training, dancing, and indoor gardening.

**Jerry Whitaker** joined the Economic Indicators Research and Forecasts Section in April, where he is currently studying distribution of government payments and technical efficiency.

He comes to ERS after three years at DRI/McGraw Hill in a technical support group. His education encompasses a wide range of areas. He has received a B.S. in Chemistry from Oregon State U., a J.D. from Northwestern School of Law, Lewis and Clark College, and an M.S. in Agricultural Economics, Oregon State U.



Jerry Whitaker

Jerry grew up on a wheat and cattle ranch in eastern Oregon, but chronic asthma forced him to leave as soon as possible. He currently lives in Wheaton, MD with his wife Mary Ahearn, who is head of the Farm Costs and Returns Section, and 11-month-old Clare, who has superceded all hobbies and most sleep.

## Finance and Tax Branch

Cliff Rossi was recently appointed Senior Financial Analyst in the Finance and Tax Branch. In this newly-created position, he will be responsible for conducting a broad program of research on agricultural and rural financial topics. Cliff joined the Finance and Tax Branch in 1985, working in the area of tax analysis. In 1987, he transferred to the Office of the Secretary, U.S. Department of the Treasury. Preferring research to policy, he transferred back to Finance and Tax one year later. Since then, his research has focused on such topics as the effect of the S&L crisis on the supply of credit in rural areas, estimating demand for capital gains tax preferences, and estimating tax progressivity for farmers after tax reform.



Cliff Rossi

S&L crisis on the supply of credit in rural areas, estimating demand for capital gains tax preferences, and estimating tax progressivity for farmers after tax reform.

Originally from the Washington area, Cliff completed three years of undergraduate work in economics and international relations at the George Washington U. He then transferred and received a B.A. degree in Economics and Public Policy from the U. of Denver. From there, he enrolled at Cornell U. and completed an M.S. and Ph.D. in Resource Economics. Cliff has received two USDA Certificates of Merit Awards for research contributions in finance and tax.

Ted Covey comes to the ERS from Texas A&M U., where he received a Ph.D. in Agricultural Economics in May. He earned an M.S. and a B.S. in Agricultural

Economics from Mississippi State U. and the U. of Florida respectively. Ted is a second generation agricultural economist. His father, Chuck, recently retired from the Food and Resource Economics Department at the U. of Florida.



Ted Covey

attempting to publish the results of his doctoral dissertation, "Testing for Granger's Full Causality". His other research interests involve financial futures markets and forecasting.

Ted lives in Fairfax City, VA. In 1978, he worked as a county coordinator in the Florida gubernatorial race. Following his candidate's loss, Ted worked as a food broker for three years along the Florida east coast. His other interests are chess, reading, history, and politics.

James McGlone joined the Rural Finance and Tax Section in July. After completing his Ph.D. at Virginia Tech U., he spent four years teaching economics at Northern Illinois U., where his research and teaching covered various aspects of monetary and macroeconomic theory. Since joining ERS, he has been studying the rural business capital market, with an eye to understanding the government's involvement and improving the flow of funds to the rural business sector.



James McGlone

in time to attend Mount Vernon High School. He spent eight years in Blacksburg, VA, where he earned three degrees in Economics. After spending a century in Columbus Ohio during the '84-'85 school year, he was off to DeKalb, IL, home of winged corn and barbed wire, for his four-year stint at Northern Illinois.

Jim now lives in Bowie, MD, where he can ease himself into life in a metropolitan area again after so many years in small towns. When not slaving for ERS, he likes to read, fish, hike, camp, and watch the Bears win and the Redskins lose.

George Wallace joined the Agricultural Finance Section in June. His research focuses on agricultural loan interest rates as well as broader areas of capital markets. George



George Wallace

was raised on an Oklahoma wheat and livestock farm and earned his B.S. degree in Agricultural Economics in 1981. He found his way into agricultural lending shortly after that and spent two years as a loan officer in a Production Credit Association. During this time he developed other interests and returned to school to work on a mechanical engineering degree, where he developed

an interest in mathematical models of dynamic systems,

which led him back to agricultural economics for his M.S. degree from Oklahoma State U. in 1989.

George, his wife Dorotha, and their two sons Jordan, 7, and Justin, 6, are enjoying the D.C. area. Other interests include family outings, wood working, history of religious thought, the church in the twentieth century, and keeping up with technology in the sciences. Dorotha is currently working for the Fairfax County Office for Children as a teacher and enjoys wildlife ecology.

## Farm and Rural Economy Branch

Wyn Francis, former *ARED Newsletter* editor and economist, left ERS on July 14 to take a job in Japan. He is now employed by the Japanese government and is teaching English to junior high-aged children. Wyn is living and working in a ski-resort village northwest of Tokyo.

A graduate of Vassar and a former VISTA volunteer, Wyn came to ERS nearly three years ago from the Rural Electrification Administration. He was a member of the Agriculture and Community Linkages Section and conducted research on industries directly related to farming.

## Rural Business and Government Branch

After more than 38 years of government service, Herman Bluestone, Head of the Rural Business and Industry (RBI) Section, has retired. Herman began his government career in 1951 as a part-time trainee in the Maryland-Delaware (MD-DE) Crop Reporting Service while attending the U. of Maryland.

After completing a B.S. degree in Poultry Husbandry, he spent two years with the Air Force in the 7100th Support Wing in Wiesbaden, Germany.

In 1956, Herman rejoined the MD-DE Crop Reporting Service and shortly after took charge of its sub-office in Salisbury, MD. There, he was principal editor of the weekly *Delmarva Broiler Chick Report* and a weekly crop and weather report. He was also responsible for increasing industry participation in the Department's voluntary hatchery reporting program.

In 1958, Herman transferred to ERS' Economic and Statistical Analysis Division, where he conducted research and analysis on milk, dairy products, poultry, and eggs. During part of 1961, he coauthored the Department's *Dairy Situation and Outlook Report* with the late Anthony Rojko. In 1962, he became editor of the *Poultry and Egg Situation and Outlook Report*. The two most memorable parts of his commodity analysis work were his participation in the American Feed Manufacturers Association's Poultry Survey Committee and in a study of the Irish poultry industry with K. E. Hunt of the Institute of Agrarian Affairs at Oxford U.

In 1967, Herman received an M.S. degree in Economics from American U. and began research on rural development issues. With the help of a one-year sabbatical from the division, he completed a Ph.D. in Regional Economics at the U. of Maryland in 1972. He was appointed Head of the RBI Section in the fall of 1985. Over the last decade, he has authored numerous reports and articles on various aspects of the rural economy and his originality of thought greatly

added to the ERS' program of work on rural development.

Charles Schmidt began work with the Rural Business and Industry Section in June. He received his B.A. and M.A. in Economics from the U. of Rhode Island. Chuck is currently working on two projects in the Rural Business and Industry Section.

The first involves developing a tourism-dependent typology identifying and analyzing tourism-dependent rural areas of the United States. The second project focuses on rural manufacturing and the numerous changes that have occurred during the 1980's in terms of industry growth and diversification, employment, and domestic/international competition.

Chuck was married on July 15, in New Bedford, MA. He and his wife, Debbie, are new to the Washington metro area and are currently residing in Oakton, VA. Chuck is originally from Rhode Island, where he had lived for eighteen years prior to his move to Virginia.

## Human Resources Branch

Glenn Fuguit, professor of rural sociology at the U. of Wisconsin-Madison, is in ERS during July 1989-Feb. 1990. During his stay in ERS, he will be studying how much rural-urban aspects of residential preferences have changed, based on a comparison of a 1988 nationwide survey with his earlier in-depth analysis of these preferences in 1972.



Glenn Fuguit

Fuguit has been widely recognized for his research on rural demography and small towns. He has examined the growth and decline of small towns, metro-nonmetro population redistribution and migration trends, and the residential preferences of the population. Fuguit has been involved in a series of cooperative research projects with ERS demographer Calvin Beale. He is senior author of *Rural and Small Town America*, a forthcoming volume in the Census Monograph series, co-authored by Glenn, Calvin Beale (HR), and David Brown (Cornell U. formerly ARED Associate Director).

Glenn has a B.A. and an M.A. from the U. of Florida. He obtained his Ph.D. from the U. of Wisconsin and has continued on the faculty in rural sociology, serving as chair of the department on two occasions.

**Ruy Teixeira**, a sociologist, joined the Rural Labor Markets Section in April, 1989. He was attracted to ERS by the close match between his research interests and background and David McGranahan's ideas for the section's research agenda.



Ruy Teixeira

benefits of various government programs. He also authored a book and numerous articles that appeared in journals ranging from the *American Journal of Education* and *Rural Development Perspectives* to *Public Opinion* and *The New Republic*.

Ruy received his B.A. in History from the U. of Michigan and a Ph.D. in Sociology from the U. of Wisconsin. His current research focusses on job skill changes in the national economy and how these changes differ across sectors and between rural and urban areas. Job skill trends will then be compared to trends in workforce quality and skill levels, so that possible mismatches between available jobs and available workers can be assessed. The project will include both an historical component that analyzes job skill changes in the 1980's and a prospective component that analyzes job skill changes to the year 2000, using data from the Bureau of Labor Statistics industry/occupation projections.

## National Economy and History Branch

**Elizabeth Mack** came to ERS in July from the Bureau of Economic Analysis. She joined the Macroeconomic Section as an economist to work with the Situation and Outlook project and anticipates learning all aspects of macroeconomic forecasting. A portion of her responsibilities will be summarizing the current U.S. situation for various USDA publications.



Elizabeth Mack

from the College of William and Mary, she packed her bags and headed for the "Big City". Her short-term goal is to find a good sub sandwich restaurant, after which she anticipates entering a graduate program.

**Karen Thierfelder** is a research assistant with the Computable General Equilibrium Modeling group in the National Aggregate Analysis (NAA) Section. She is taking a leave of absence from the U. of Wisconsin, where she is working on her Ph.D. in International Trade. With her experience at ERS, she would like to develop a thesis that addresses labor market adjustment and trade policy.



Karen Thierfelder

Karen grew up in New Milford, CT. She received her bachelor's degree from the College of William and Mary. Not willing to part with the student lifestyle, she then went to the U. of Wisconsin to work on a Ph.D. in Economics. To escape from her dissertation (temporarily of course), she enjoys biking, swimming, reading, and sewing.

**Dennis Roth** became a historian in the Agricultural and Rural History (ARH) Section in July. Dennis, who has a B.A. from the University of Chicago and a Ph.D from the U. of Oregon in Cultural Anthropology, was chief historian for the Forest Service for 10 years. He has written four books and several articles, including two volumes on the wilderness movement and one on the development of the Philippine land tenure system. Most recently, he has just completed a history of the professional organization for Government employees entitled "The First Decade of the Society for History in the Federal Government." Dennis is also interested in rural development.



Dennis Roth

organization for Government employees entitled "The First Decade of the Society for History in the Federal Government." Dennis is also interested in rural development.

Dennis is currently living in Reston, VA. His wife, Shirley, is a gourmet cook and cooking instructor. She recently opened a restaurant, *A Taste of the World*, in the Reston International Plaza. They have one daughter who will soon be an art and anthropology major at Tufts U. in Boston. Dennis dabbles in photography and musical composition. He has written an illuminated manuscript on visual awareness, *Rhythm Vision*, which he hopes to publish.

**Sherman Robinson** has returned to the Department of Agricultural and Resource Economics at the U. of California-Berkeley after spending two years helping ERS develop a CGE modeling capability. Robinson's tenure with the NAA Section yielded an invited paper at the AAEA meetings, three papers at international conferences on

modeling the economywide impacts of agricultural trade liberalization, two chapters in forthcoming books, an ERS staff report, a forthcoming journal article, numerous ERS and university seminars, an in-house "Advanced Modeling" course, and several CGE modeling workshops. Additional articles and papers are in various stages of writing, review, clearance, and publication.

**Stephen Tokarick** (NAA Section) resigned to take an economist position with the International Trade Commission.

**Darryl Wills** spent two months this summer with the NAA Section before returning for his third year of graduate training at the Department of Economics, Massachusetts Institute of Technology.

**Norwood Kerr** left the ARH Section in June to return home to Alabama and a job at the Alabama State Archives. Norwood wrote a number of excellent papers on food policy, scientific research in USDA, and other areas and was a major contributor to the Section's history of USDA since 1961. He published two books during his years in ERS on the history of experiment stations. We wish him luck in his new endeavor.

The ARH Section had two summer employees this year, **Chyrise Thomas** and **Timothy Mathia**. Chyrise, who returned from last summer, is a junior at James Madison U. Tim will be a junior at the U. of North Carolina-Greensboro and is the son of Gene Mathia in ATAD. Both worked primarily with microfilm. Tim spent about a month with the section before leaving to get married.

## EDITOR'S NOTES

48 pages - whew! That's what happens when you try to include a decent description of *everything* that members of the division are doing. (But then, it's all such good stuff.)

Because of the length, though, I'd best keep this short. I apologize that the pictures of farming and rural environs used in this issue are taken so much from the countryside in proximity to the D.C. area. A very large proportion of the pictures in our files are local ones. I would like to echo, therefore, **Sara Mazie's** call for black and white photos of rural areas from around the country.

Thanks again to **Carolyn Riley** for her superlative design work, especially since she was under no obligation to provide it this time. **LaShawn Parker**, our section's secretary, again did an excellent job typing up hardcopy contributions. And where would the newsletter be - other than my office - if **Flossie Dingle** and **Jackie Ross** didn't apply mailing labels.

Of course, the newsletter simply wouldn't be without contributions from members of the division. To a great extent, this issue's length reflects their interesting work and their cooperation in providing writeups about their labors. It really is good stuff.

## LIST OF PUBLICATIONS

*Agricultural Outlook*, pp. 4, 9, 10, 13-15, 18-19, 21, 26, 29, 32, 36, 39.

*Recent Developments at the Farm Credit System*, pp. 5, 19.

*Estimating Farm Labor Elasticities to Analyze the Effects of Immigration Reform*, p. 6.

*Data, Linkages, and Models: U.S. National Income and Product Accounts in the Framework of a Social Accounting Matrix*, p. 6.

*Survival and Growth of Independent Firms and Company Affiliates in Rural and Urban America*, p. 9.

*Agricultural Income and Finance Situation and Outlook Report*, pp. 9, 12-14, 17, 19, 26.

*Farmland*, pp. 10, 14-15, 23, 31-32.

*Rural Development Perspectives*, pp. 10, 19, 21, 23, 29, 32, 41, 45.

*Financial Characteristics of U.S. Farms, January 1, 1989: A Summary*, pp. 11-12.

*Economic Indicators of the Farm Sector: National Financial Summary*, pp. 9, 13, 15.

*Economic Indicators of the Farm Sector: State Financial Summary*, pp. 13, 15.

*Major Statistical Series of the U.S. Department of Agriculture. Volume 11: The Balance Sheet*, p. 15.

*State-Level Costs of Production, 1987*, p. 15.

*Costs of Production for Major U.S. Crops, 1975-87*, p. 15.

*Economic Indicators of the Farm Sector: Costs of Production*, p. 15.

*Interactions Among Federal Crop Insurance, FmHA Disaster Loans, and the 1988 Drought Assistance Program*, p. 19.

*Equilibrium Land Prices Under Risk*, p. 19.

*Farmer Buying/Selling Strategies and Growth of Crop Farms*, p. 21.

*Structure and Change in Socioeconomic Conditions: The Mississippi Delta*, p. 23.

*Retirement Counties: A Development Option For The Nineties*, p. 23.

*Effects of Population Growth and County Type on Farm Structure, 1970-80*, p. 23.

*The Agricultural Work Force of 1987: A Statistical Profile*, p. 24.

*Employment Stability Among Workers: A Case Study from Nine Kentucky Counties, 1979*, p. 24.

*A Hard Look at USDA's Rural Development Programs*, p. 25.

*The Economic Cost of Unemployment and Underemployment*, p. 26.

*Patterns of Change in the Rural Economy, 1969-86*, p. 26.

*Explanatory Guide to the ERS Metro and Nonmetro Labor Force and Income Data Diskette*, p. 26.

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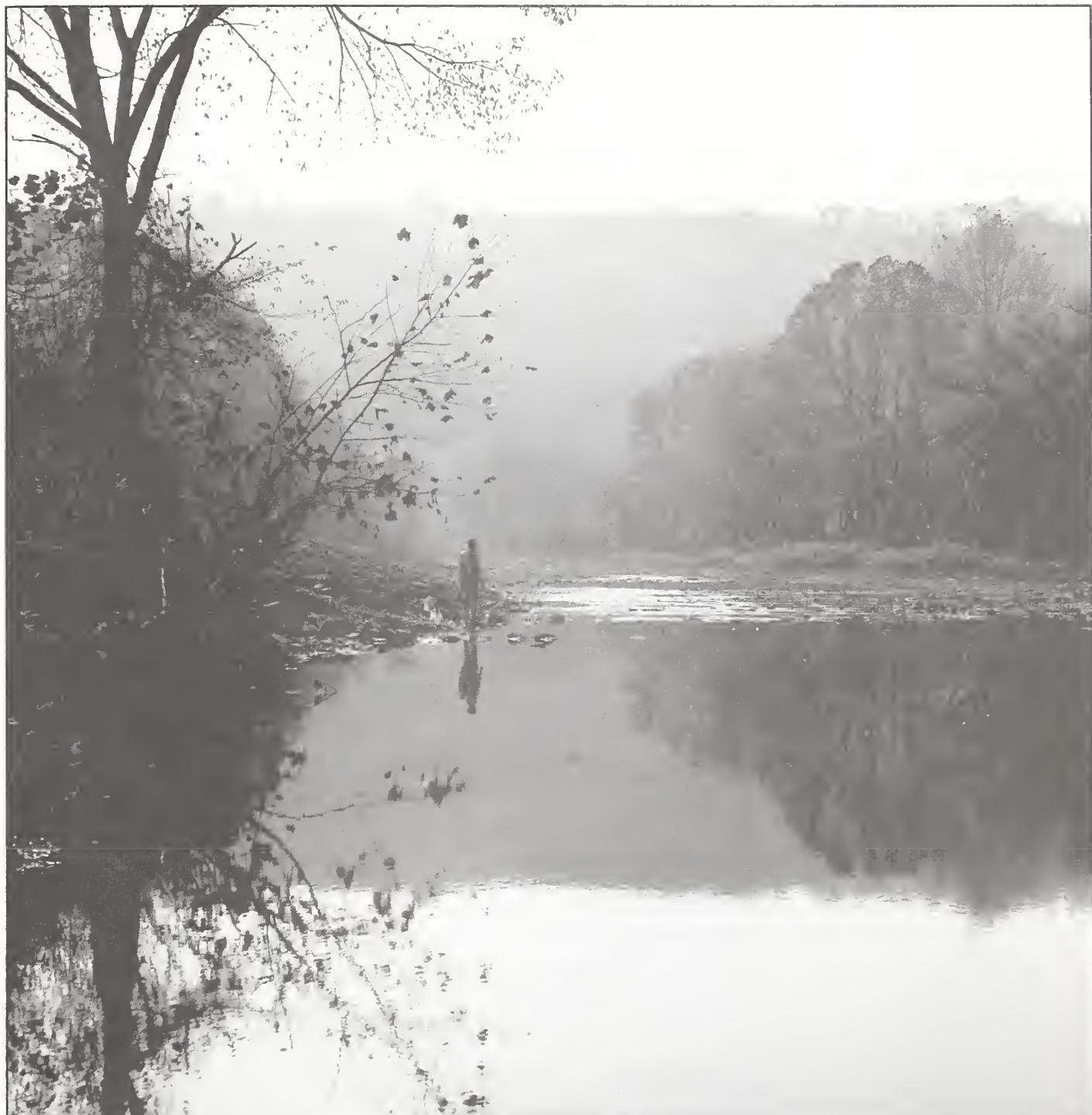
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*A November scene along a stream in Marshall County, West Virginia.*

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